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and BUSINESS ANALYST

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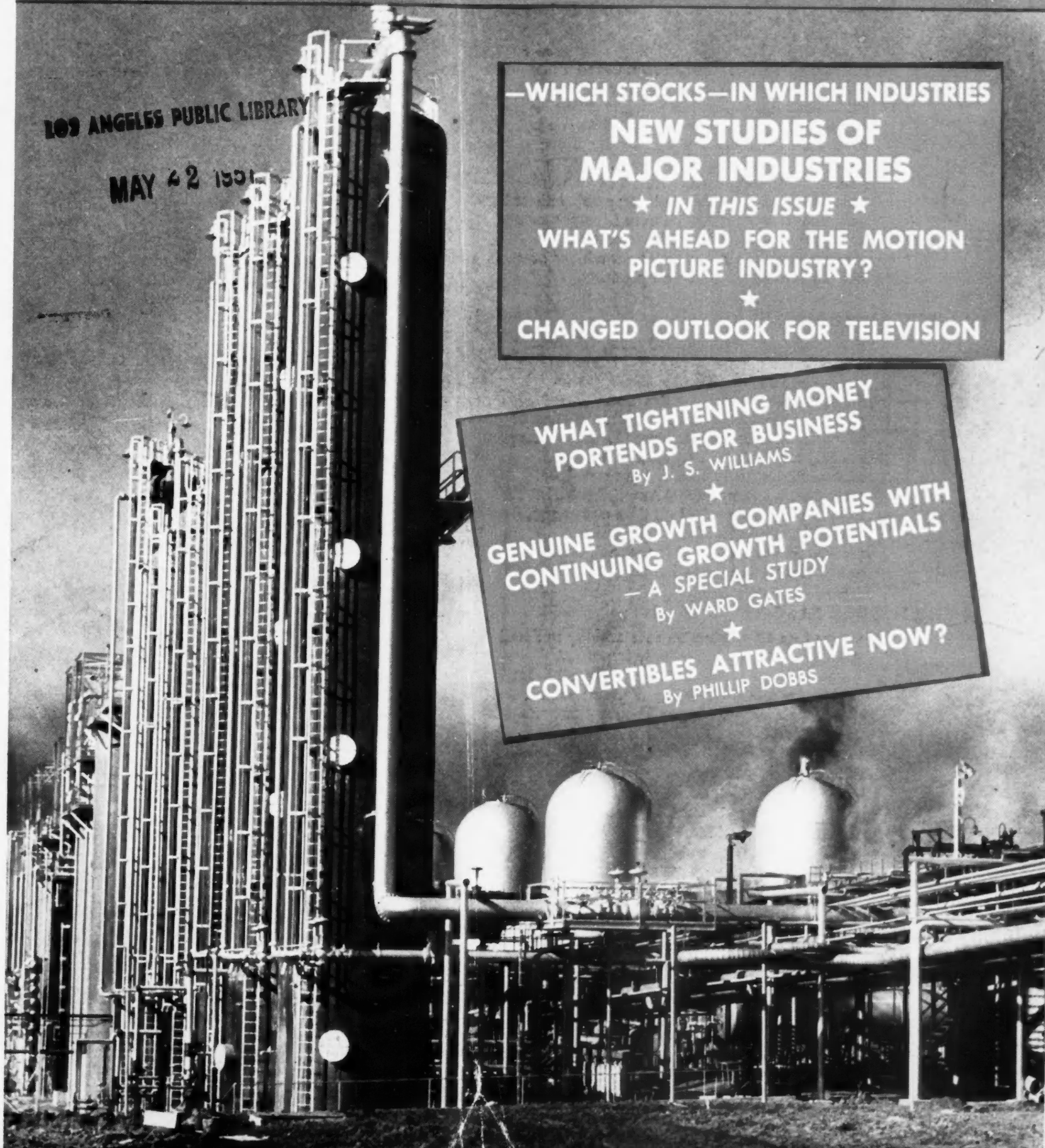

—WHICH STOCKS—IN WHICH INDUSTRIES

NEW STUDIES OF MAJOR INDUSTRIES

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By PHILLIP DOBBS

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and BUSINESS ANALYST

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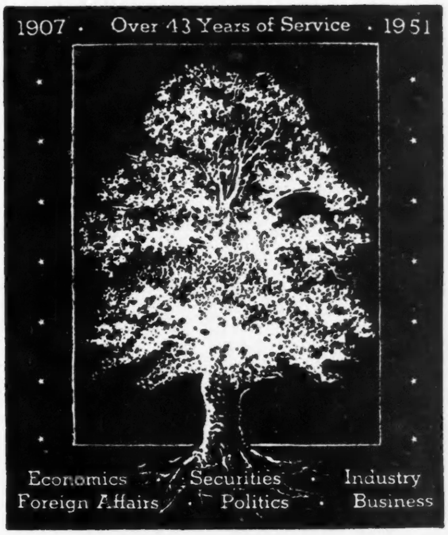
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor*



The Trend of Events

NO RELAXATION . . . As Administration leaders on Capitol Hill are pressing their demands for tighter economic controls, it is apparent that legislators are in no great rush to extend and tighten the Defense Production Act which is due to expire June 30. Rather there are many signs that belligerent congressmen are in a mood to strip away some of the broad control powers given the President last year.

No doubt fully aware of this, President Truman told industrial leaders that this country faces three deadly enemies: Aggression. Inflation. Relaxation. Of the three, he said, the worst is relaxation.

That is true enough. The simple fact is that we cannot relax without inviting disaster. Our danger has not lessened; if anything, it has increased. We are still far from adequate preparedness, the program for which is rolling but slowly. Indeed this would be an ill moment to relax in our effort.

But this doesn't mean that we should proceed heedlessly or recklessly along the path of controls, regardless of need and consequences. Proper scrutiny of measures proposed is in order. Congress should not be pressured into hasty action. On the other hand, there can be no question of dropping controls entirely as some have urged. We simply cannot afford to let inflation get out of hand, and there is no assurance that this would not happen, were controls to be dropped or unduly relaxed.

As it is, the Administration itself must shoulder the blame for much of its troubles with Congress. It has taken the stand that we are fighting only a limited war in Korea and that there is no need to carry the country into a total war economy. Naturally this tends to strengthen the thought that half-way controls can work. The MacArthur controversy hasn't helped any either, for it has raised grave doubts about the soundness of the Administration's course not only in the foreign field but on the homefront as well. Confidence in this respect is at a new low. And naturally, ever-present domestic politics also strongly enter the situation.

Chiefly, however, the Administration's leadership has been less than inspiring and this has much to do with the querulous attitude of Congress. Confidence is needed if the country is to heed the call for "No Relaxation." And that confidence still remains to be instilled.

It cannot be instilled unless "politics as usual" is promptly abandoned, unless there is sternest economy in Government and above all, unless there is a reshaping of our foreign policies in line with the realities of the world situation. Nor can it be instilled by efforts to have Congress rubber-stamp the Administration program.

A GOOD IDEA? . . . There seems to be growing support for the proposal to apply a withholding tax on individuals against dividend and interest payments, enough at any rate to have brought tentative approval by the House Ways and Means Committee presently occupied with framing the new tax bill. Corporations and banks would be required to deduct 20% of all dividends and interest paid, and hand it over

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: : 1907—*"Over Forty-three Years of Service"*—1951

to the Treasury.

Is it a good idea? We doubt it greatly. First of all, it would mean new complications, new forms to fill out, new trouble for the taxpayer, new red tape, even more book keeping for the Internal Revenue Department. Perhaps more important, it will involve distinct hardship for the stockholder of small income who depends on it for his living but whose dividends will be cut whether or not he owes taxes upon them. He must wait until March 15 next, or longer, for a refund. Until then, he just has to do without.

Advocates of the scheme claim that some $300 million will be gained thereby in new taxes. They point out that there must be many evasions by small stockholders since the amount paid out in corporate dividends fails to show up on income tax statements. This, however, proves nothing. A goodly amount of the "lost" revenue can probably be accounted for by tax-exempt dividends paid to charitable, educational and religious institutions; and there must be many small stockholders who simply have insufficient income to require a tax.

Actually, the idea is aimed principally at the small stockholder, for corporations report all dividends over $100 for cross-checks with individual tax returns. In the circumstances, the potential gain from the withholding tax may well be greatly overestimated. Withholding the tax on dividends – and a double tax it is to boot that should long have been eliminated—is at best an expedient of uncertain value that lacks justification. The tax-paying citizen is bedeviled enough and so are the corporations. Why should the latter be forced to collect taxes for the Government—do the job which the Internal Revenue Bureau is supposed to do?

To burden banks, corporations and individuals with a load of extra work and red tape, to penalize small income stockholders who may owe the Government no taxes or far less than it withholds, seems to be a poor way to get at the relatively small number of people who may be trying to get away with not adding up all their income.

LOWERING TRADE BARRIERS . . . As a result of trade agreements with seventeen nations concluded at Torquay, England, last month, another substantial advance in the field of international trade relations has been made. The State Department has announced that this country has granted tariff concessions on imports that were valued at some $488 million in 1948, whereas the seventeen foreign countries have agreed to lower their duties on imports from the United States which in 1949 amounted to more than one billion dollars. Additional American exports estimated at $100 million will benefit from bilateral trade agreements concluded at Torquay in which the United States did not participate. Altogether, more than 1,300 items of import and export are directly affected but the actual total will be much larger, as the concessions made in all the 147 bilateral agreements are generalized for the benefit of all.

This is progress. Torquay has extended and enlarged the excellent work begun at Geneva in 1947 and continued at Annecy in 1949. Nations accounting for the great majority of world commerce are now signatories of the basic instrument, the General Agreement on Tariffs and Trade (GATT).

The latest conference has produced some interesting results. With tariff cuts exceeding expectations this may well prove a sharp spur to U. S. imports unless our price controls prevent such a development. Yet on the whole, our tariff concessions failed to produce anything like the outcries that have frequently greeted tariff-cutting in the past. One reason is of course that the world rearmament program, and that of the U. S. in particular, has stimulated demand for all kinds of goods to such a marked degree that competitive pricing in many areas is no longer a dominant factor in the marketing of many commodities. Moreover, many concessions involve items in short supply here so that any means of easing their entry is welcomed.

An interesting aspect is that Canada and Western Germany will likely be the greatest beneficiaries under the new agreement. On the other hand, there was failure "to find a basis for expanding the existing range of concessions" with the United Kingdom and other Commonwealth members of the sterling bloc, for whom the British preferential system still has an overwhelming attraction. Disappointment over this failure should however not obscure the positive accomplishments attained elsewhere though it admittedly has narrowed the scope of the final results.

Obviously this particular phase of the negotiations floundered on the rocks of Empire preferences, under which Commonwealth countries levy discriminatory duties on non-Commonwealth products. It had been thought that Britain would agree to modify the preference system in return for tariff concessions on our principal imports from England, but the British evidently felt that further change in the preference system would have undesirable repercussions on the trade and economic unity of the Commonwealth group. Of the latter, Canada was the only one to conclude new tariff arrangements with us.

In doing so, our neighbor to the North appears to have come to a parting of the ways with other Commonwealth nations on the question of imperial preferences, preferring to take an independent course. An opening move in this direction was made back in 1947 at Geneva when Canada received a release from Britain in respect to Canadian-British preferential rates. Closer U.S.-Canadian trade relations are of course logical, and more so in view of the current world situation. Failure of the U. S. and Britain to agree on new tariff concessions will all the more tend to align Canada with this country in economic matters. Whether it may deepen the differences between U. S. and Britain on currency and trade problems remains to be seen.

Torquay, being the third in a series of tariff-cutting conferences, has also revealed certain difficulties in negotiating concessions with many countries arising from the fact that relatively little leeway was left for further negotiations on particular items. Obviously a number of "low tariff" countries have used up much of their bargaining power at the earlier rounds.

The Reciprocal Trade Act, under which tariff agreements are made, will expire next month. The House has passed a bill for its extension, though diluted with various unwise and even crippling amendments. The bill reported by the Senate Finance Committee also contains some (*Please turn to page* 222)

As I See It!

BY ROBERT GUISE

GENERAL MARSHALL EXPLAINS

To Stalin, it must have been an amusing and rewarding experience to hear the leaders of his foremost opponent, capitalist America, speak out loud about their fear and troubles. and what they thought about the prospect of victory in Korea, what should be done about Formosa and the seating of Red China in the United Nations.

The people of this country, after listening for days to what General Marshall had to say on the stand, must be wondering what happened to their hero. And they must still ask themselves what was the real reason for MacArthur's dismissal.

Secretary Marshall of course gave the Senators three reasons why he opposed General MacArthur's recommendations for waging air and naval war against Communist China. The first was that he didn't think China could be defeated that way. The second was the danger of precipitating a total war with Russia. The third, that the proposed action would almost inevitably lose us the cooperation of our allies.

"LEAD-OFF MAN"

Loring in The Evening Bulletin

What puzzles us, and probably many other observers, is the deep fear professed by Washington of precipitating total war by bombing Manchurian bases, while apparently no such fear attaches to European re-armament under our sponsorship. Evidently we are less afraid of the Russians and their satellites in Europe than of the more limited Russian troops stationed in the Far East, and of their Chinese stooges.

The Soviet rulers, who are the real masters of the situation, must realize by now that the Chinese communists cannot win the war in Korea except by committing a sizeable air force based on Manchuria. And they also know that if they do that, it will immediately precipitate strong counter-attacks on Manchuria, as well as other measures. It certainly would confront the Kremlin with the difficult choice between doing nothing about it, which would be tantamount to enormous loss of face and defeat, or action which would precipitate a third world war.

The latter can hardly be a welcome choice for the Kremlin. There is much to support the view that Russia is not ready for total war and that she has no intention to start one now. While there need be no illusions about Soviet Russia's final aims—subjugation of the world including the eventual destruction of the U.S.A. in its present form—the Kremlin in all probability has a definite time table and will not be hurried into anticipating it. To Russia, Korea is only a minor incident in the long term program of conquest of South East Asia by communism.

However that may be, fighting a war in the Far East for Russia would be just as difficult as for us, and probably more so despite availability of their Chinese allies. If the Soviets have learned anything from the Washington debate, it must be that there is not the faintest chance that we will now weaken and withdraw from Korea. And if the MacArthur incident has done nothing else, it certainly has tended to stiffen Washington's policies whether the State Department liked it or not.

General MacArthur thus has forced the Administration to reject the idea of turning over Formosa to Communist China, or of seating the Chinese Reds in the United Nations. He has forced it to speed up its program of limited aid to Nationalist China. And he certainly has made it difficult for the State Department to entertain any ideas of giving the Chinese Reds and the Russians a say in the writing of the Japanese peace treaty. It would seem that appeasement along any of these lines has become at least more difficult, if not impossible. The public is too much stirred up by what it has heard.

On the other hand, Red (*Please turn to page* 222)

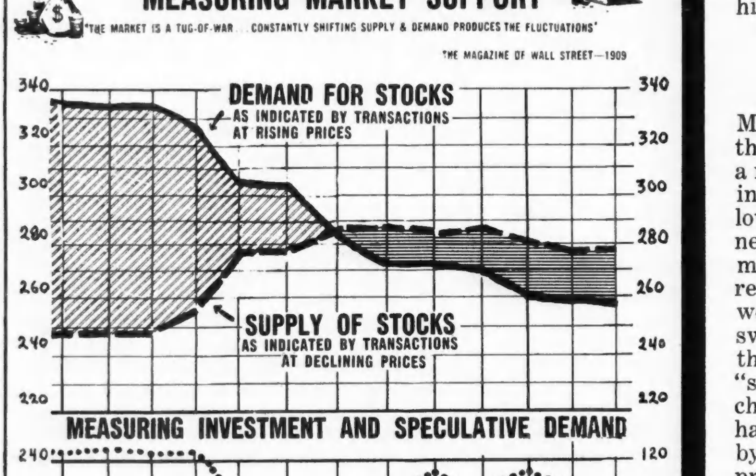
New Trends In Selectivity

The recent downward drift of stock prices, moderate so far, comes on top of a number of indications suggesting that the previous upturn from the March reaction low was transient. We are allowing for a more substantial sell-off, which may or may not be preceded by a further trading-range phase. Our policy remains conservative and selective.

By A. T. MILLER

In considering the stock market's behavior and prospects, the following technical background can be useful:

The Dow-Jones industrial average rose to a high of 255.71 on February 13; then reacted 11.76 points to the March 14 low; that was followed by an upswing of 17.11 points to a new high of 263.13 on May 3. This high, attained in about seven weeks of zig-zagging, bettered the February high by only 2.9%. Over roughly the same period the rail average had a maximum recovery of only some 60% of its February-March sell-off. The utility group, after sagging moderately into late March, has since done no more than drift sidewise.



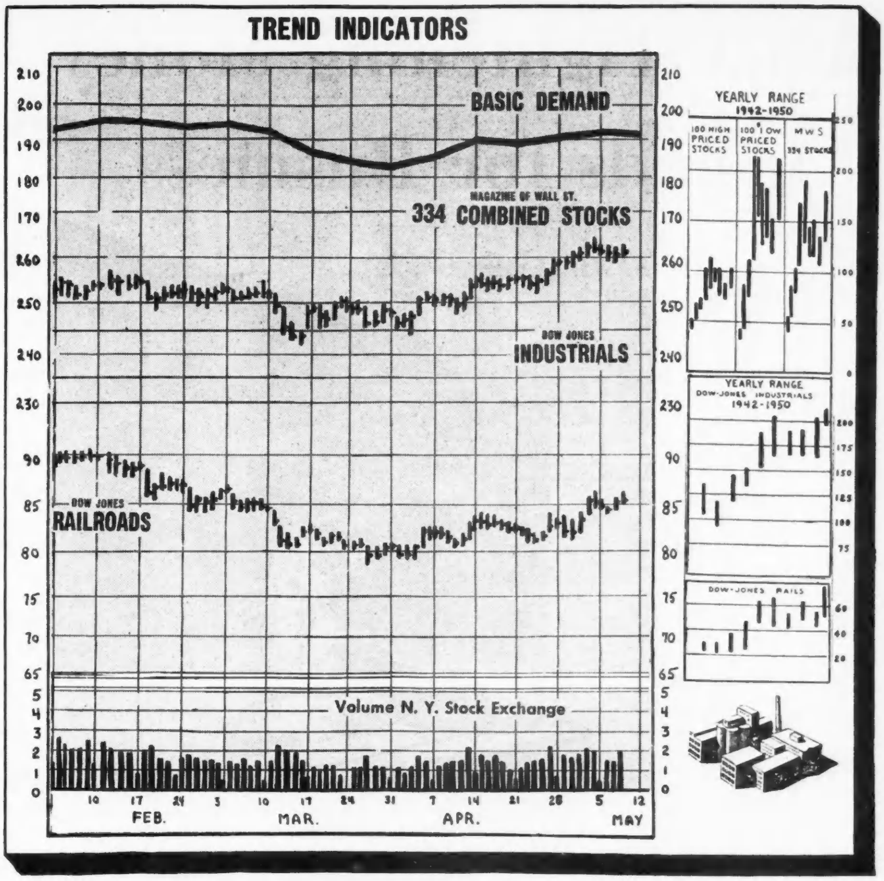
Regardless of the "penetration" of the February high by the industrial average, and by other averages or indexes made up of a moderate number of relatively well-known industrial stocks, the over-all performance has remained far more desultory than decisive. At no time has it had the earmarks associated with resumption of a broad and general advance. Trading volume in this seven-week period averaged far under that on the sharp upswing of last December-February. The May 3 high for the industrial average, and the same day's rally high for rails, were established on volume roughly a third smaller than that which accompanied establishment of the February highs.

Shift In Selectivity

Aside from unimpressive breadth, the May 3 high in the industrial section was the result mainly of selective demand for a minority of favored stock groups. Looking at the weeks, since the March reaction low, in which there was some appreciable net gain in the average, less than half as many of our weekly stock-group indexes recorded new highs than was so in upside weeks of the December-February price swing. Indeed, the main thing that made the March 14-May 3 phase any kind of "show" was concentrated demand for oil, chemical and ethical drug stocks—and this has subsequently lost steam. As indicated by the indifferent behavior of the low-priced stock index throughout the period under review, nothing like the mood of speculative confidence, which prevailed for many weeks prior to the February-March sell-off, was at any time recaptured. This is significant; for whereas investment takes the lead in the initial phase of a major advance, it takes speculation to "keep the pot boiling" after stocks have reached relatively high levels.

The recent shifts in selectivity additionally indicate a greater interest in defensive stocks—stocks which generally hold up better than average in market declines. There were evidences of this motive in

quite a bit of the first-quarter switching operations of investment trusts. since the market has become thin on the bid side, reports that some trusts have quite recently been paring holdings by secondary distributions – off the market – of blocks of stock are credible.



With this background in mind, it should not be surprising that the market trend has now been gradually, but rather pers'stently downward since May 3, without a single day-to-day rally of any consequence. The selling to date has not been heavy; and there is no certainty that it will become so. However, the only alternatives that we can see for the medium-term period are: (1) trading-range fluctuation within the March 14-May 3 limits; or (2) a decline of somewhat greater scope–carring under the March lows–than the present consensus of professional and public opinion can see any basis for.

The consensus at the start of the February-March correction was: a considerable reaction, followed by a resumption of the major advance. Probably that was the main reason why the reaction proved to be quite moderate; for the market rarely does what the majority expects. The minority view, which may now be in process of proving right, was: a surprisingly small reaction, followed by a "false" new high for industrials, then by a surprisingly large sell-off.

Often it takes considerable time for a decisive pattern to evolve; and that is quite possible in the present instance. Thus, after making its absolute high in late May of 1946, the market "fiddled around" until August before it broke sharply. Again, the Dow industrial average reacted a total of about 16 points in a few weeks, after the Truman election in 1948, recovered nearly half of it, then "fiddled" for many weeks, after which the downtrend was resumed, with the initial sell-off nearly doubled before bottom was reached in mid-1949.

From a technical viewpoint, comparison with the 1946 market invites attention. In that year the May bull-market high in the industrial average bettered a pre-reaction, early February high by only a little over 4%. The May high was "confirmed" a few weeks later–unlike the May 3 high in the present instance–by the rail average, but only by the thin margin of 8 cents. The highest trading volume was seen in January and early February, with low-priced stocks topping out some four months ahead of the Dow averages.

Of course, there are important differences. The nose-dive of nearly 50 points in late summer and early autumn of 1946 was associated with unfounded fears of a postwar depression. At present we are seeing the correction of an overdone spree of buying, and of inventory accumulation, in the civilian-goods sector of the economy; but the capital-goods industries are active and, regardless of interim factors, the arms program appears to assure a generally high level of economic activity for an extended period. The impact probably will not be as inflationary as officials are predicting–in their campaign to extend and broaden the Administration's control powers–but it certainly cannot be deflationary.

The Question Of Yields

Again, price-earnings ratios, figured on prior-year earnings, are a good deal lower than they were at the 1946 high; and average dividend yields on typical industrial stocks are in the vicinity of 6.5%, compared with a little under 3.5% at the 1946 high. In these respects the market position is not too extreme. However, the question of 1950, or even 1951, earnings is more than a little beside the point; and so is the matter of current dividends. The peak in earnings has been put behind; and, if there is any significant change in dividends ahead, it must be downward. Nobody can know what the annual rate of total corporate earnings will be under the combined impact of the higher taxes that Congress will impose within a few months, and the narrower operating margins that will result directly and indirectly from the shift to defense work, controls, etc.

It is conceivable taht *(Please turn to page* 224)

What Tightening Money Portends for Business

By J. S. WILLIAMS

In the wake of recent moves resulting in at least partial reversal of the Government's easy money policy, the money market has been tightening up in all directions and the end is probably not yet.

Interest rates are higher all along the line. Following removal of the rigid price peg on Government bonds, the market has slumped materially with a corresponding rise in bond yields. This is making it increasingly harder for borrowers to get loans, for banks, insurance companies and other lending institutions are reluctant to sell at a loss Government securities in order to raise lendable funds.

Apart from this, new restrictions are sought on bank lending to stiffen the "voluntary" restraints advocated in the past. And there are indications that the new money pool into which business can dip for new capital is likely to shrink in the future, which would mean that borrowing will become more difficult and more expensive.

It all goes back to the recent "accord" between the Treasury and the Federal Reserve which ended the long-standing FRB support policy of the Government bond market. In its wake, key Government bond issues dipped from above par to around 97-98. Yields on the 2½% issues have risen from 2.4% to 2.6%, making the restricted issues once more look attractive to pension funds, personal trust accounts, some savings banks and others. But the question remains: How much lower will Government bonds go?, and this keeps the market on tenderhooks.

Only quite recently, Government securities again fell through previous bottom prices on the Treasury's announcement that it would not call, for the first time in eighteen yars, an issue of bonds that was about to become callable. This removed the bond market's one hope that a material rally would occur in the prices of Federal issues which have moved downward, with intermittent small recoveries, ever since early March.

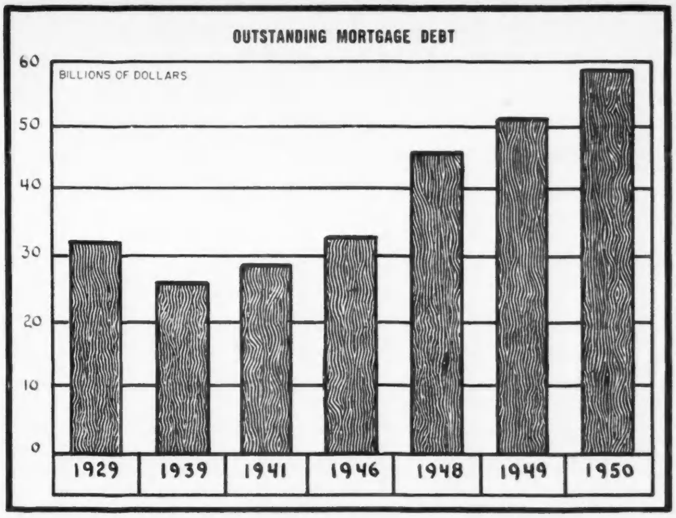
It leaves the bond market in an uncertain state. The simple fact is that there can be no permanent "accord" between Treasury .and FRB since each necessarily has different objectives. The Federal Reserve may yet have to set new price pegs though to do so would again invite an inflationary increase in the money supply. Not to do so, on the other hand, would keep the Treasury in the position of having to make last-minute decisions on new issues. It will have to act on the question of refinancing enormous note issues soon and there is mounting concern over how this is to be done, unless the bond market improves.

Just how the money market has firmed is shown by the following comparisons. Three months ago, the Treasury paid 1⅓% for three-month money. Today it has to pay 1½%. Government bond yields have roughly risen one quarter percent all around. Municipal bond yields have gone up from 1.72% to 2.13%. New York banks charge their business borrowers, on short term loans, an average of 2.69% as against 2.45% last December. Even corporations trying to raise money by the sale of securities have been directly affected; they had to raise the interest rate on new bonds to the highest rate since the late Thirties to make their sale possible, and a number of new issues have been delayed as a result of falling prices and rising interest rates.

Upset in Mortgage Market

The new scheme of things has also upset the real estate mortgage market and together with other factors may bring about incisive shifts in life insurance company investments. Right now, at least, a temporary upturn in interest rates is due on mortgages though some experts soothingly forecast the return of more normal credit conditions before many

months. For the moment, it seems, mortgage money has gone into hiding or into short term loans to await clarification of the outlook. Meanwhile new long term commitments are frowned upon.



Heavy Advance Commitments

On top of financing the biggest building boom, mortgage lenders prior to promulgation of Regulation X, restricting building credit, have pledged an estimated $1.5 billion in tentative credits and there is considerable need for digesting this advance commitment. It was simple enough while bond prices were pegged and lenders could raise cash by selling Government bonds. Removal of bond support now means a loss which makes the procedure far less attractive.

Thus as expected, the effective development of the Treasury-FRB accord has had wide repercussions. While interest rates remain low by any historical standard, borrowers and lenders are aware that money is less easy to get than it was only a few weeks ago. And of course it costs more. The key to the situation lies in the bond market drop which was allowed to go considerably further than almost anyone had anticipated.

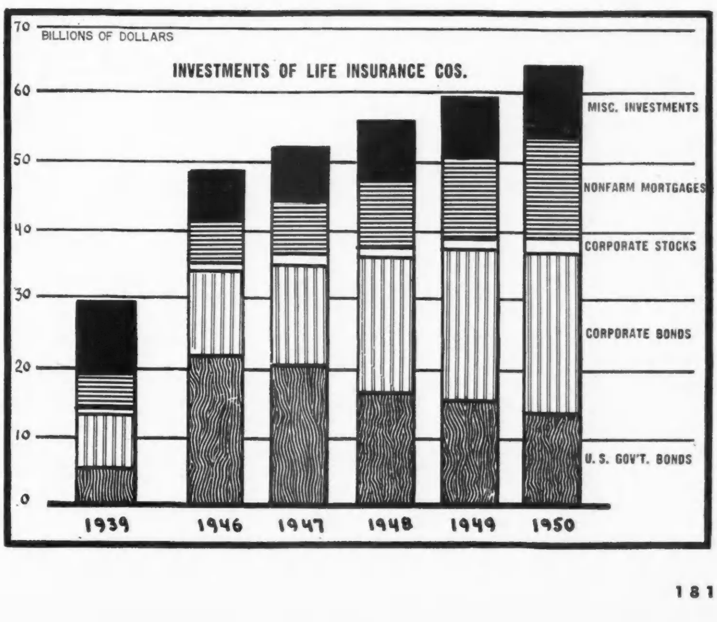
In this respect, FRB policy seemingly remains flexible. Questioned recently on what FRB bond market policy now is, chairman Martin stated that the Federal Reserve does not intend to support Government bond prices "on a pin-point peg," but neither does it intend to let the market go completely on its own. That much of course was apparent already; nevertheless few had anticipated the size of the decline which was allowed to happen.

Tightening of the money market at any rate has led to increased caution not only among lenders but also among borrowers conscious of the more selective attitude on the part of the lender. It's been more difficult to qualify for loans. And the dollar in hand is held in somewhat higher esteem now that the borrowed dollar does no longer come so easily. Insurance companies are said to be turning down an increasing number of even "good" loans because of the decline in their uncommitted funds and reluctance to raise new lendable funds by selling Government bonds at a sharp discount. Savings institutions are using less efforts to hunt for profitable new outlets for funds, and more efforts to attract new funds, particularly also in view of the downtrend in the accumulation of deposits.

As already hinted, life insurance investment distribution appears to be entering on a new cycle of change. Most clearly indicated is a slowing down in new mortgage financing which last year accounted for 40% of new investments with nearly $5 billion going into such financing. On the other hand, corporate securities may see some expansion this year despite an indicated contraction of lendable funds, though any expansion will hardly rival that which occurred in recent years. Since 1945, the amount which insurance companies had invested in corporate securities (chiefly bonds) rose to 40% of total investments from 25% in 1945. Mortgage investments rose to 25% from 15%.

During the same five-year interval, holdings of U. S. Government bonds shrank from 46% to 21% of total investments. In actual amount, such bond holdings last year alone declined by some two billion dollars, and by another $200 million during the first two months of this year. It was this heavy sale of Government bonds which helped make possible the sharp expansion of investments in mortgages and corporate securities. This trend has now come to a halt. Not only would long term Government bonds henceforth have to be sold at a loss, but the insurance companies' supply of directly marketable governments has been cut through the recent exchange of $2.6 billion 2½s into the Treasury's new non-marketable 2¾% bonds. As we know, altogether $8 billion of private funds have been "locked up" in this manner.

All in all, life insurance companies henceforth may have rather less to lend, both to business and in mortgage financing. They may be somewhat less active in the public new issue market, perhaps also



less eager in the absorption of "special offerings" though that remains to be seen. Certainly they will be more selective in granting direct loans. As new capital is more difficult to obtain, the result could be that potential borrowers may have to go to the public for money, or else that capital needs of the economy are increasingly met through governmental channels. This, too, remains to be seen. As to the former possibility, much of course depends on the further trend of security markets.

Shift in Flow of Individual Savings

Another trend of possibly major significance, which contributed to pressure on the bond market, has been the shift that has occurred in the flow of individual savings. True enough, people are saving more than they did prior to the Korean war, but a much larger proportion of such "savings" is going to pay for homes and other durable goods. Statistically, this is called "saving"; actually of course it isn't, certainly not in terms of permanent liquid savings. Large amounts are concentrated in checking accounts to be drawn against for periodic payments on houses and hard goods bought.

What has been the result? There has been a sharp falling off in the flow of funds into savings deposits. Savings and loan associations have experienced a slackening in their rate of deposit gain. The absence of the usual gain naturally cut down the funds available to these institutions to take up mortgage commitments, necessitating more sales of Government bonds. In view of the break in the bond market, this process will hardly continue—certainly not at the former rate. If so, it is another factor pointing to a tightening of the mortgage market.

Permanent or Temporary?

It may be premature to conclude that the shift in the flow of savings will be permanent; if this should be the case, it were bound to require changes in investment policies of thrift institutions, and any change in turn might readily affect the capital markets of the future. If thrift institutions face a reduced rate of growth, a smaller demand for bonds and mortgages from these sources would have to be expected.

It is well to remember to what extent the increased institutionalization of savings in the last two decades has contributed to bond market strength, and favored low interest rates on bonds and mortgage loans. A permanent reversal of this trend would naturally be of major importance. The reversal as recently observed was largely due to inflation psychology just as the former trend towards institutionalization of savings reflected a desire for safety and liquidity. That desire could be revived once inflation fear wanes, hence our reluctance to regard the change in public investment habits as permanent. But because of its deep significance, the trend deserves close watching.

It could, among other things, mean that more savings may be invested in the security markets which in turn would imply a broader demand for equities. Something of the sort has already been going on, though it hardly rivalled the flow of savings into real estate and consumer hard goods.

Without a doubt, the abnormally high rate of withdrawal of personal savings since Korea has aggravated the inflation problem. To combat inflation, the need was for more saving and less spending. Yet as long as inflation threatens, as long as inflationary policies prevail, this exhortation carries little weight as far as the individual saver is concerned. His aim is to preserve as much as possible the purchasing power of his savings and instinctively he turns to investments that hold such promise.

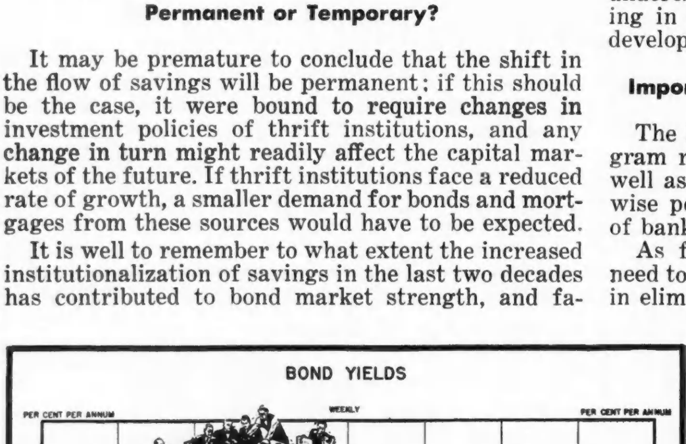
The need to lick inflation thus is again highlighted. The bond unpegging, the voluntary credit restraint program advocated by the Government has worked in this direction though it will take time for the full effect to be felt. As a recent levelling in weekly bank loan figures suggests, the momentum of credit growth has been checked for the present but the power of demand for credit, if amplified by rising prices or expectation of still higher prices, should not be underestimated. From this standpoint, the latest easing in commodity prices is however a constructive development.

Importance of Restraint in Government Spending

The longer term success of the anti-inflation program rests in the area of Government spending as well as in the area of capital expenditures. Without wise policies, it will be difficult to keep the volume of bank credit down.

As far as expansion outlays are concerned, the need to cut them is now realized and will likely result in eliminating less important projects. Likewise, the large outlays planned by States and municipalities will have to be pruned. The need to cut down on less essential Federal expenditures is of course paramount; it is here where the biggest battle will have to be fought. In this area, unfortunately, the Federal Government has given little more than lip service to vital anti-inflationary requirements.

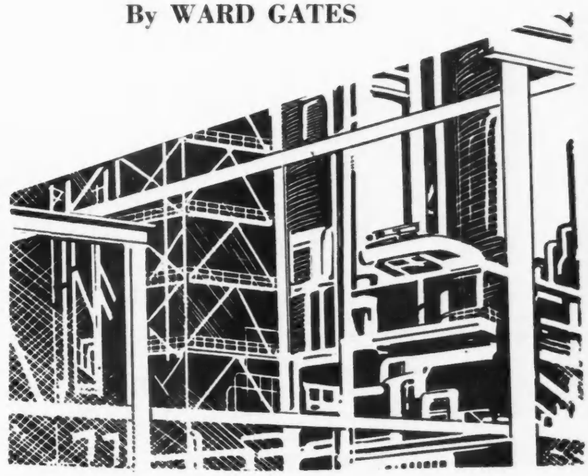
To date it has largely relied on commercial banks to restrain their lending, and put them on notice that they can expect new restrictions on their lending capacities. Thus new powers are sought from Congress to raise bank reserve requirements and any such action, on top of the other measures already instituted, would doubtless prove fairly effective in cutting bank lending. Banks, too, will no longer find it expedient to sell Government bonds to replenish their lendable funds. (*Please turn to page* 222)



.... Genuine .... Growth Companies

—*With Continuing Growth Potentials*

By WARD GATES



In the analysis of investments, the "growth factor" has quite properly been given increasing weight during recent years. Experience has kept repeating the lesson of how an element of growth in an investment often makes up for weaknesses in other factors—whether they be in the inevitable errors in judgment from time to time on the part of the company's management, or mistakes by the investor in buying at the wrong time or at too high a price. So long as American business as a whole keeps growing, the leading enterprises having a public investor ownership should also keep growing. Moreover, unless a company keeps growing somewhat faster than the general average, it is usually not long before it falls behind in the competitive race.

The widespread attention devoted to the growth factor is commendable, and there is undoubtedly justification even for the practice of classifying numerous companies in diverse lines of business in a single group labeled "growth companies."

Merely selecting those which have expanded faster than the general average, however, and calling them "growth" companies is not particularly revealing, and may actually prove misleading. This is because an expansion in the dollar volume of business may be caused by so many factors other than genuine growth.

For example, in judging the growth of business in the postwar era, by a simple comparison of the increases in corporate sales between the last year of the war, 1945, and the year 1950, there are a number of abnormal circumstances that lessen the comparability of the figures. A large increase may reflect merely the fact that the business was curtailed in 1945 by wartime restrictions or end-of-war reconversion—as in the case of the automobile industry. Or it may reflect in 1950 the inflation of dollar sales resulting from the jump in selling prices—as in metals. A substantial increase would only match the general recovery that occurred in business, while a sharper increase would only match the boom in the consumer goods industries based upon catching up with deferred demand.

These erratic factors that account largely for the rapid postwar growth of many companies should—so far as possible—be recognized as such. They must not be confused with genuine growth resulting from aggressive management, sound finances, operating efficiency, new products, new plant capacity, and widening markets. It is not, of course, always feasible to separate all of these diverse and changing economic factors and to weigh their importance accurately.

A list of manufacturing corporations which have shown unusual growth since the end of the war has been compiled for this article, based upon those whose volume of reported sales more than trebled between the years 1945 and 1950. Such large increases are in most instances far beyond what would result merely from the special factors cited such as wartime curtailment in 1945 or price inflation in 1950. A further limitation, designed to eliminate those companies that—even though growing rapidly—are still too small in size to merit the consideration of the average investor, was to include only those having substantial sales last year, chiefly over $25 million.

An Interesting Sample

The resulting list—obtained by combing over the figures of many American manufacturing corporations publishing reports, contains 30 names and is presented in the accompanying table, together with comparative figures of sales and net income, as well as other data pertaining to their shares. Companies on this list had an average expansion in sales from approximately $15.2 million in 1945 to $66.7 million

in 1950, or by 337%. In contrast, the total dollar sales of all U. S. manufacturing companies increased during the same period by only 52% (most of which represented a rise in prices rather than a gain in physical volume). For our group of fast growing companies, average net income after taxes rose from $885,000 to $7 million or almost eight-fold. Average net profit margin on sales was widened from 5.7% to 11%.

The detailed list reveals that the fast-growing companies were not all concentrated, as might be assumed, in those newer industries such as television, but for the most part were distributed widely through the older established fields. Our list of 30 concerns, for example, includes only two representatives of the television industry, with a similar number accorded to chemical firms.

Representation in Various Fields

Cement, lumber and building equipment have the highest proportion with 7, followed by oil and natural gas operators with 5, the same as for manufacturers of household appliances. Textiles and a few other classifications are represented by single companies. It is significant, of course, that our selections are rather broadly scattered among a number of industries that have been especially active in postwar, but under more normal conditions could also be expected to give a good account of themselves.

An examination of the individual companies listed on the table suggests a number of factors that contributed to their vigorous growth since 1945. In some cases, these concerns were carried along by, or outstripped, the rapid growth of their entire industry. This was true of television, including Admiral Corporation and Allen B. DuMont Laboratories, both of which have participated strongly in the very dynamic development of TV, and are well situated to share in the indubitably bright future of this industry.

Similarly, though to a somewhat lesser degree, it was the postwar boom in household appliances and related equipment that greatly stimulated the progress of such concerns as McGraw Electric, Thor Corporation, Seeger Refrigerator, Sunbeam Corporation and Whirlpool Corporation. All of these companies were strongly established at the end of the late war, and have made the most of their opportunities created by deferred demand, improved products, increased population, the extension of electric service and their individual expansion programs.

Aggressive Merchandising Methods

In other cases where the industries make consumption goods having relatively little growth factor, the expansion of certain companies reflected unusually aggressive merchandising methods. In the beverage lines, this was true of Pfeiffer Brewing Company. Among the pace setters in the construction field, such aggressive firms as General Portland Cement, Lehigh Portland Cement and Alpha Portland Cement found the insistent demand for their products so heavy that they progressively expanded their plant capacity and have been able to sell their enlarged output very profitably. Presently, the outlook suggests that their high level activities will continue unabated for a long while to come.

Both the chemical and petroleum industries produce goods for consumption, by individuals and by business, and have grown consistently. Some of their outstanding performers on our list are Mathieson Chemical, Shamrock Oil & Gas and Ashland Oil & Refining. The building boom helped in the soaring sales of Weyerhaeuser Timber, Detroit Steel Products (window and door frames, etc.) Georgia Pacific Plywood, General Fireproofing and National Gypsum Company.

While the steel industry was increasing its capacity since the war from a total of 92 million tons to over 100 million tons annually, with present programs headed for 117.5 million tons by January 1, 1952, the volume of dollar sales was more than tripled by Granite City Steel, Sharon Steel and Detroit Steel Corporation.

Aside from the satisfactory records made by these companies in the past five years, and from the major factors in their growth already cited, a few qualifications—good and bad—might be added.

It is, of course, hardly to be expected that the three-fold or greater expansion during 1945-50 can be duplicated in the next five years; the rate of growth is bound to slow down as time goes on. Moreover, the rapid growth of any one company in an industry tends naturally to cause the competing companies to speed up also.

What to Look Out For

When dealing with rapid industrial growth, there are always two dangers to watch for. One is the the expansion has taken place so fast that mistakes in planning and operations are unavoidable. Another is that the spurt represents merely an artificial and temporary stimulation that will be followed by relapse.

A brake on the rate of progress of growing businesses is the accompanying increases that usually occur in the wage rates to organized labor, in the overhead expenses for executive officers, and in the large proportion of earnings taken in taxes. The excess profits tax cuts deeply into the available income that may be retained for financing growth—despite the complex provisions in the law designed to afford relief to this group.

At the same time, vigorous growth is itself the best means of keeping ahead of rising costs and taxes. Companies with a strong growth factor are usually able to keep their own revenues well ahead of expenses, as well as to do better than their competitors and to reward their own shareholders.

For most of the 30 companies in our table, detailed analysis shows a fine record of dividend increases, stock split-ups, and boom in market prices. They have far outstripped the excellent record of industry generally in paying dividends at a new high in 1950 and up to 14 per cent more in the first quarter of 1951, and likewise in market prices of shares soaring to new highs.

Finally, most of the factors in the growth of these companies since the war are still applicable for the years ahead. Industry's job is, in truth, never finished in replacing and modernizing its equipment, improving its products and processes, bringing in new ideas and energy. There is no reason why the business principles that brought success to these companies in the past will not do the same in the future. Furthermore, this exceptional group of companies should suggest a great many other enterprises, already well established, which have strong

rowth potentials awaiting only certain needed ele-nents of management, capital, products, and narkets.

We remind our readers that in compiling our list n a basis of tripled sales within a rather limited eriod, we have necessarily omitted a large number f outstanding growth situations that did not quite all into this special category. We have also and ntentionally left out a number of vigorous concerns o widely recognized for their growth characteristics hat to include them might seem platitudinous. Ex-ansion in assets as well as in sales commonly would e included as a measure of growth, and increased olume over a long term of years, even though not pectacularly rapid, often indicates dynamic progress hat may be continued indefinitely.

Recognized Growth Companies

In other words, it goes without saying that in any rdinary discussion of growth concerns, such firms s Dow Chemical, Monsanto Chemical, General Mo-rs, Celanese, Abbott Laboratories, National Steel nd numerous others would feature strongly. On the ther hand, the theme of our article has involved onsideration of a number of situations somewhat ss obviously in the public eye, either because of elative size or because of more recent forging ahead n an especially pronounced manner. To the extent that tomorrow's outlook seems encouraging in these cases, the shares of these companies may still hold strong potentials for further and perhaps impressive long term appreciation.

It will be noted from our appended table that the current yields obtainable on stocks of the companies listed vary considerably. These returns are interesting to study, if only because they indicate the degree of confidence or distrust over the permanency of company earnings at present high levels, or of dividend stability. Especially marked seems to be confidence over the continued strong growth of Mathieson Chemical, whose future prospects are bright enough to induce investors to be content with a present return of 3.6%. Even more outstanding is the instance of Georgia-Pacific Plywood, whose present dividends are so widely covered by earnings; growth potentials evidently are considered enough encouraging so that demand for the shares has reduced the yield to 2.6%.

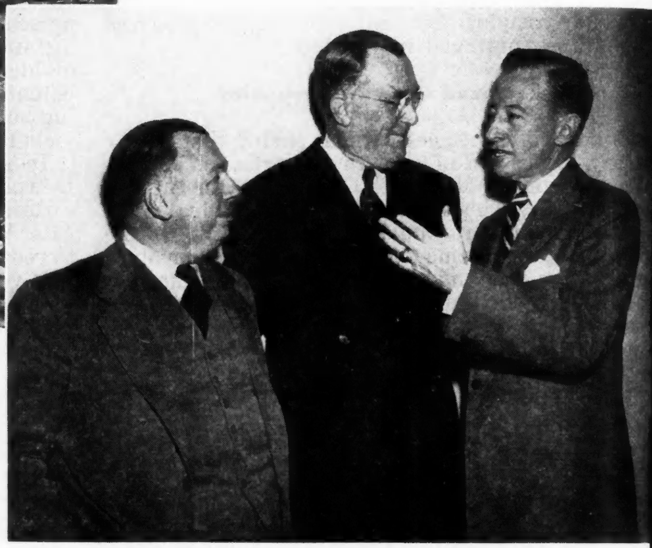
In sharp contrast, a current yield of 14.1% on Detroit Steel Products shares reflects substantial uncertainty over the stability of dividends at last year's rate. While it is true that earnings may recede due to reduced civilian production probable in the second half year, the dividend could be halved and yet leave an adequate return, and over the long term the company's growth potentials might not be impaired. Much the same applies to others.

Statistics of Selected Growth Companies

	Sales 1945	Sales 1950	Net Income 1945	Net Income 1950	Net Per Share 1950	Div. 1950	Yield	Recent Price
	(Millions)							
Admiral Corp.	$ 30.5	$230.3	$ .7	$ 18.3	$ 9.53	$ 1.00	4.2%	23¾
Allen Industries	5.8	33.9	.2	1.4	2.66	1.05	10.4	10⅛
Alpha Portland Cement	6.5	21.5	.1	3.2	5.59	3.00	7.5	39½
Armstrong Rubber	10.6	42.1	.3	2.4	6.34	1.50	7.7	19⅜
Ashland Oil & Refining	34.8	145.4	.9	10.0	5.21	1.70	4.3	39
Detroit Steel Corp.	21.4	92.9	.8	8.9	7.54	2.00	5.8	34
Detroit Steel Products Co.	8.4	38.0	.2	3.0	7.65	3.75	14.1	26¾
Du Mont (Allen B.) Laboratories	6.9	76.3	.04	6.9	2.87	1.00	5.8	17
El Paso Natural Gas	8.1	38.6	2.2	6.3	2.32	1.25	4.5	27⅜
Fedders-Quigan Corp.	6.6	33.6	.4	1.9	1.60	1.00	3.8	26⅛
General Fireproofing	15.0	30.8	.6	3.2	5.02	2.50	12.2	20½
General Portland Cement	7.5	25.2	.5	5.9	5.68	3.00	8.2	36¾
Georgia-Pacific Plywood Co.	5.4	53.4	.05	3.8	5.04	.625	2.6	23⅝
Granite City Steel	18.8	59.7	.06	5.7	11.52	2.125	7.7	27½
Lehigh Portland Cement	14.6	44.3	.7	6.5	6.89	2.50	9.6	26¼
Lion Oil Co.	22.9	81.9	1.6	13.9	5.97	1.875	4.3	43
McGraw Electric	9.0	80.3	.8	7.7	9.23	3.50	6.8	50¾
Mathieson Chemical	19.5	75.7	1.1	8.9	3.32	1.50	3.6	41¼
National Gypsum	26.7	75.9	1.0	9.2	4.20	1.50	8.0	18¾
Pfeiffer Brewing	6.2	23.2	.4	3.6	3.05	1.50	6.7	22⅛
Robbins Mills, Inc.	13.4	43.1	.5	5.8	7.03	1.50	4.0	37½
Seeger Refrigerator	14.5	81.5	.8	5.5	5.06	2.10	12.1	17⅜
Shamrock Oil & Gas	7.2	27.9	1.1	4.7	3.54	2.00	5.8	34¼
Sharon Steel Corp.	40.8	136.1	1.0	9.2	10.03	3.75[1]	7.8	48⅛
Sheller Mfg. Corp.	4.8	42.0	.1	4.7	4.25	.90	5.2	17⅛
Sunbeam Corp.	12.2	67.4	1.1	9.9	11.01	3.00[1]	5.3	56
Texas Gulf Producing	2.6	9.8	.6	3.0	2.78	1.25	4.6	27⅛
Thor Corporation	9.3	29.9	.3	1.8	5.39	1.75	10.2	17
Weyerhauser Timber Co.	60.6	182.5	8.1	32.9	5.27	4.00	5.9	63½
Whirlpool Corp.	7.2	78.7	.3	4.5	6.73	2.00	8.7	23

1—Plus stock.

PRICE ROLLBACKS AHEAD?



Federal Controllers DiSalle, Wilson and Johnston— Their powers are under sharp scrutiny in Congress.

By J. C. CLIFFORD

The question of the effect of Office of Price Stabilization manufacturers' price ceilings on the prices of goods and on the general price level itself may prove to be largely academic for some months to come and possibly for the balance of this year. Ceiling Price Regulation 22, scheduled to become effective on May 28, is said by OPS to cover some 75,000 manufacturers but this seems to be something of an exaggeration.

A number of industries, such as automobiles, wool goods, machinery and machine tools, are covered by special industry price regulations. Special ceiling price orders for cotton textiles, apparel, and footwear may be issued before this is published or shortly thereafter. Manufacturers whose last annual gross sales were less than $250,000—and that includes a lot of small manufacturers—are permitted, under the terms of CPR 22, to continue under the price ceiling provision of the General Ceiling Price Regulation of January 26 if they so choose.

The objective of CPR 22 and of most other manufacturers' price ceiling regulations is to roll back manufacturers' profit margins to pre-Korean levels by permitting manufacturers to add to their pre-June 25, 1950, selling prices only the dollars and cents increases in costs of materials and of labor with cutoff dates for these variously established but generally from the end of December to March 15, 1951.

Since prices of many materials were rising so rapidly during the second half of last year that manufacturers had difficulty in keeping abreast of them and of increases in labor costs as well, *ceiling prices for many producers—as calculated under the revised ceiling regulations—may prove to be more generous than those "frozen" under GCPR.*

Declines since the middle of February in sensitive commodity prices—mostly in farm products, to be sure, but including a substantial number of nondurable raw and semifinished materials—have taken a lot of heat off manufacturers. They don't have t lower their ceilings when materials prices declin And the outlook at present is for further declin in prices of many materials over the next fe months. An end of the war in Korea, which seem at the moment to be a good 50-50 bet for the n far distant future, could send some materials pric tumbling.

Ceiling Prices May Turn "Sticky"

Ceiling prices, as we learned from World Wa II experience, have a habit of turning sensiti prices into "sticky" prices. Declines in demand an increases in supply do not depress prices as th would normally. Analysis of the relationship betwe prices and disposable national income shows clear that prices during World War II were maintain far below their usual relationship with income as result of OPA price ceilings. There was no roo for prices to go down. The inflationary gap ke prices bumping at their ceilings despite any declin in demand or increases in supply.

The fact that sensitive commodity prices ha declined about five percent since mid-February, drop without precedent during World War II, ca for cold-blooded analysis of the present commodi price situation with respect not only to the sensiti commodities (raw and semifinished materials) b with respect to the price structure in manufactur products.

Since June 25 last, we have been hearing of sho

ages present and prospective. There is no doubt that the defense program is chewing up larger and larger chunks of the raw materials, particularly the metals, that normally would be going into production of civilian goods. Beginning July 1, when the Controlled Materials Plan goes into effect, defense will take still larger chunks of metals and the civilian pickings will be leaner.

Theoretically, we should be faced with acute shortages of goods right now, with consumers scrambling for the limited supplies available. Don't laugh, that's what Washington was telling us no longer ago than late last Fall with most economists concurring.

No Shortages Yet

Instead, as most of us are well aware, huge inventories of goods have piled up in production and distribution channels and are still accumulating. Retail business, following two waves of scare buying since last June, has slumped to not much better than year-ago levels on a dollar volume basis and undoubtedly is off slightly in terms of physical volume. While production has been curbed by NPA restrictions on the uses of various materials, the output of civilian goods still is very large and in excess of the retail offtake. Consumers have covered well ahead on most durables, and Regulation X has put a severe crimp in sales.

Washington now is talking of the likelihood of shortages developing next winter, with inflationary pressures and the shortages putting the heat under prices at that time. Most orthodox economists are taking the same approach. They may prove to be right, but it is important to note that the time when shortages of civilian goods will develop is being pushed farther and farther ahead. On the basis of the experience of the past year, there is good reason to believe that Washington by next winter may have postponed the time of civilian goods shortages to the summer of 1952.

Something is wrong with all these calculations of shortages, inflationary gaps, etc. A little pencil work that you can do quickly yourself suggests that the answer may be in the failure to make proper allowance for our huge and still expanding industrial productive capacity. The Federal Reserve Board index of industrial production, now at about 222 percent of its 1935-39 base, is expected to rise to around 235 by next winter. Defense is expected to take no more than 20 percent of the total production, although requirements will be greater than 20 percent in some areas, notably durable goods.

Civilian Production Potential

That would leave, measured in the overall, a civilian goods production index of 187. The index averaged 200 in 1950, a boom year if ever there was one, while the average for 1947-1949 was 185. These three years represented something like a post-war normal, with the accent on the high side during a good part of the time. Furthermore, it should be noted, constant easing of consumer and mortgage credit was necessary to keep goods moving during this period.

To no inconsiderable extent, our productive capacity for defense is being built on top of a huge civilian productive capacity that the experience of recent years has demonstrated is overly large. Without constant easing of credit, neither distribution nor prices could be maintained.

Outbreak of global war or a distinct worsening of the international situation could alter the present outlook by stimulating consumer demand for goods and necessitating expansion of military goods output at the expense of civilian goods production. Otherwise, it may be quite some time before present excessive inventories of goods—built up in the expectation of shortages that haven't come—are reduced to something like normal proportions.

The impact of expanding military goods production has been greatest in durables, and it is in consumer durables that shortages are most likely to develop. That is common knowledge. Nevertheless, consumers appear to be very little concerned over any prospective scarcities of durable goods. We won't talk about television, which is in such a sour state that manufacturers have cut prices and are giving premiums to stimulate sales. Take a look at automobiles, usually at the top of the durables. With production being cut back by NPA restrictions on steel and other metals, buyers are anything but scrambling for new cars. In used cars, business has slumped this spring instead of registering the usual seasonal pickup, and dealers are cutting prices several hundred dollars below OPS ceilings in their attempts to pull in customers.

Instead of shortages of goods, retailers are faced with a shortage of customers. Nondurables are moving better than durables but only as a result of very heavy promotions.

We won't argue with the thesis that shortages of goods will develop next winter to put heat under the inflationary kettle, even though there is ample evidence that it may be a long time later, if indeed at all. What we are more concerned about now is the outlook for the next three or four months or so.

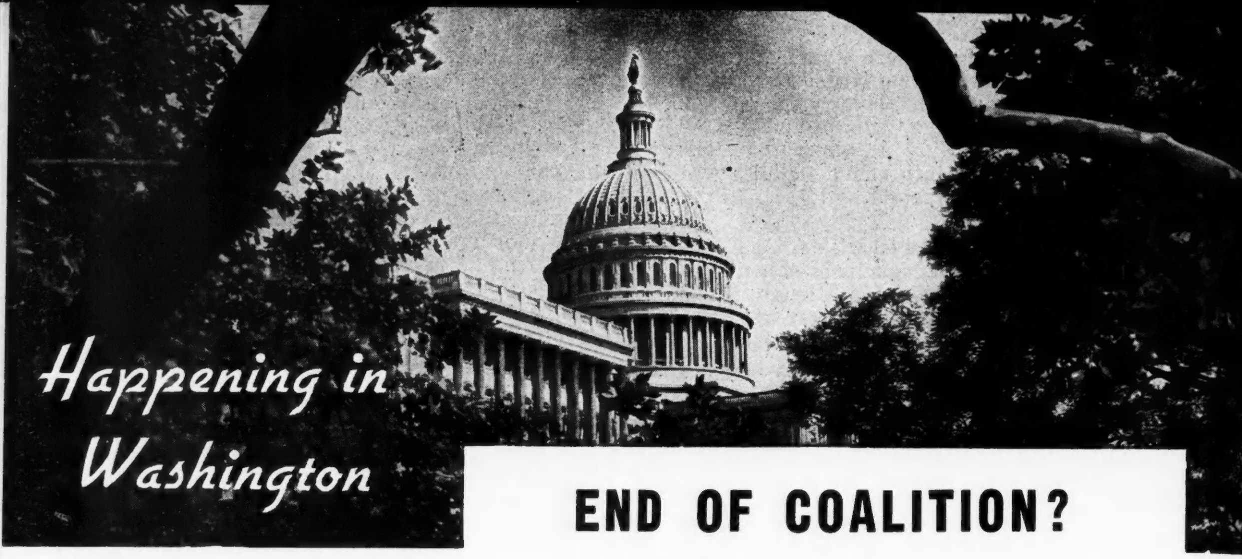
Ceiling Prices May Be Largely Academic

Barring the outbreak of war, the probabilities are that ceiling prices on numerous manufactured goods will be left sitting high and dry during this interim period, much like boats stranded on a sand bar at low tide. That's what we meant when we said earlier that ceilings may prove to be largely an academic subject, for months to come.

The indications are that the pressure on prices of sensitive commodities has only just begun. The 1951 cotton crop, which promises to be between 60 and 80 percent larger than the very small 1950 crop, is certain to have far-reaching effects on prices of numerous commodities, including of course cotton textiles. New crop futures are a nickel lower than old crop futures, selling at OPS ceilings, and prices could decline much further before they reach government support price levels.

When the new crop begins to move to market in a few months, spot or cash prices of cotton seem almost certain to decline from their present lofty perch. Cottonoil prices, along with prices of other fats and oils and even including the inedible types such as linseed oil and tallow, will be influenced. Lard, hogs, soybeans, and all of the various by-product feeds will be affected more or less directly. Numerous other commodities may be affected either directly or indirectly.

Rubber, with an oversupply now in prospect rather than a shortage as had been anticipated originally, is considered more than likely to seek lower levels. Wool, still in (*Please turn to page* 222)



END OF COALITION?

By E. K. T.

COALITION government has been suspended, if not in fact ended, by the General Mac Arthur investigation. The two-party system has been reinstated in congress, at least on military and international affairs. This resulted from republican insistance that Chairman Richard Russell of Georgia, conduct open hearings. He resisted, successfully, on security grounds. Senator Russell is chairman of the Southern Democratic (Dixiecrat) Caucus, and the GOP assault on his methods herded the southerners into the regular democratic camp. They complain their leader was entitled to better treatment in view of past relations with the northern republicans, and no longer regard coalition a workable practice.

WASHINGTON SEES:

It was inevitable that there would be a tightening of clamps on the construction industry, and when NPA issued its orders that special authorization must be obtained for buildings requiring more than 25 tons of steel, the control agency was merely tightening the reins on what already was a runaway situation. In a combination of performances to fill existing needs and to beat the greater restrictions which must have been foreseen, public and private interests had plunged into a huge building program: public expenditures 31 per cent higher than one year ago; private industrial plant being built at double the rate of last year.

NPA is to blame for much of the drain on steel inventory. For example, there has been a ban on uncertificated building of places of amusement since last Fall, but the records appear to show that about 50 per cent of the theater applications still are being processed with favorable decisions. Washington is witnessing a boom in construction of large apartment houses of the luxury type. The control agents reviewed the situation a few months ago, decided to permit completion on the theory that they probably would become government offices "for the duration." Now it's found that the rentals would be out of all proportion to use for office space; and, of course, they are beyond the reach of the rank-and-file of government employee. Under the new order, certificates must be obtained for multiple dwelling unit buildings costing $35,000 or more. Too late, perhaps.

Essential industrial plant must be built and recreational buildings will be approved for defense boom towns. Churches, schools, and hospitals (except in defense areas) are the buildings which will wait.

REMAINING out of the controversy raging over publicity, General Mac Arthur deftly scored a direct hit on his detractors when he stated his reasoning for remaining aloof: he does not interfere with the decisions of his superiors, respects their jurisdiction. Yet no congressional news in modern times so completely blanketed other Washington happenings. And the censored sheets handed to reporters as the discussions moved forward contained so few deletions and blue-pencillings as to indicate the hearings might well have been in the open. Security appeared to be facing little risk. Reason why there was little light thrown on war plans probably is found in the fact that there seems to be none.

SCHEME to get Secretary Acheson out of office by denying him a salary or even going so far as to withhold the entire State Department appropriation will backfire. The idea of abandoning the Department is too preposterous to contemplate, but there might be enough votes to stop Acheson's pay. He doesn't need the money, and that might determine his course: to stay on the job at this point when he is ready and willing to step out. Congressional memories, too, are short. The house tried the same maneuver in 1943, withheld the pay of three government employees the President wouldn't oust. The Supreme Court said the action was unconstitutional.

CAMPAIGNS to end all controls, and to cancel the rollback on beef prices—the former by the U. S. Chamber of Commerce, and the latter by the cattle growers, will fail. The Chamber argues with validity that a sound tax policy and cut in spending would have the effect of putting many prices within the range of going wages and lessen the need for administrative brakes. The cattlemen go along in their area of interest.

As We Go To Press

The Federal Trade Commission, or, in any event, its chairman, doesn't go along with the popular notion that controls now being set up will not outlive the acute emergency that brought them into existence. Chairman James M. Mead fixes their probable duration as "a decade or a generation." FTC has no immediate jurisdiction in the field of controls, but it makes many of the studies, prepares many of the reports on which other agencies – NPA, Office of Price Stabilization, Federal Reserve Board, to name a few – base their actions. The commission, therefore, must be presumed to know at least the broad thinking current in the other departments.

Chairman Mead professes worry over the future of free enterprise and shakes a warning finger at "big business." Unless the little businessman gets a fair share of defense business, he counsels, the emergency will produce either an excess of government control or unconscionable monopoly. As a bureaucrat, his choice of the alternatives would not be hard to guess. Mead declares an excess of control orders can be avoided, but only through industrial plant expansion, new technologies to increase production and offset a growing manpower shortage.

Defense Production Administration is in the publishing business, producer of a weekly business letter which will be sold to trade associations, industries or any others who are interested in resumes of actions taken. The prospectus seems consciously drawn to cut down circulation: "The Bulletin will contain no material that has not previously been available to the press and trade associations. Editors, publishers and others concerned were consulted to determine how the weekly bulletin could best serve their needs and to make certain it would avoid competition with existing media."

By refusing to exempt members of the Commission on Internal Security and Individual Rights from the "conflict of interest" provision (a two-year bar against doing business with the government), the Senate has carried forward a policy which, the White House protests, is keeping competent men out of federal service. Resignation of several of the commission members is expected; some are lawyers specializing in federal practice and if denied the right to pursue their normal livelihoods for two years after leaving present assignments, they would be heavily penalized. The barrier has made it impossible to obtain a general counsel of desired calibre.

The exemption bill has been shelved but not killed. There's still opportunity to take it up, pass it. But the odds are against that action. Congress has placed beyond the reach of the "conflict of interest" rule many of the key personnel now on defense assignments. Question has been raised whether the objectors actually fear that abuses will grow out of permitting men who have served the government in this capacity, doing ordinary business with Washington at a later date, or whether there merely is determined effort to stymie the work of the commission, prevent it from functioning.

The house has moved to take the play away from the senate on investigation of defense contracts – a legislative by-road generally credited with landing Harry S. Truman in the White House. (Overlooked by the political assayers, it appears, is that Mr. Truman's successor, former Senator James M. Mead of New York, went down to defeat while serving as chairman.) Rep. F. Edward Hebert of Louisiana, has been named chairman of the new investigating group. The committee has given broad subpena powers and it expected to pre-empt the field by their broad use in a rash of early inquiries.

The new tri-partite wage labor board has set up shop facing an accumulation of more than 800 cases, involving 3 million workers, and with the troublesome matter of basic policy not solved. The old board went out of business in February when labor withdrew, protesting the formulae were not workable. The job will be complicated by President Truman's direction to the board to take jurisdiction in "non-economic"

situations where the defense program is substantially involved. That is one of the issues for which organized labor fought hardest, and is one which employer groups have steadfastly opposed. It may prove to be THE new battleground.

Reports filed with the House of Representatives show that more than 10 million dollars was spent for lobbying purposes in 1950. That probably only scratches the surface; there's respectable evidence that much more than that amount was spent on government payroll, printing, etc., to carry out the "obligation of the departments and agencies to keep congress informed." The biggest lobby in Washington, congressmen are convinced, is the government itself. That makes a farce of the Lobby Registration Act, they admit; but they cannot evolve a method for getting the true picture. Recapitulation of the annual report shows labor spending only five per cent of the total amount, the communists but $10.

Farmers are threatening to bolt the democratic party in protest against Treasury recommendations that farm cooperatives be heavily taxed through the process of removing existing exemptions. Agriculture thought it had a contrary agreement with the White House, assumed its only fight would be with the very active National Tax Equality Association. Agriculture Secretary Brannan has broken with the Treasury on the point, cites Supreme Court decisions that revenue of co-ops is income in the hands of their members and can be taxed at that point, but does not consitute revenue of the co-op as a separate entity.

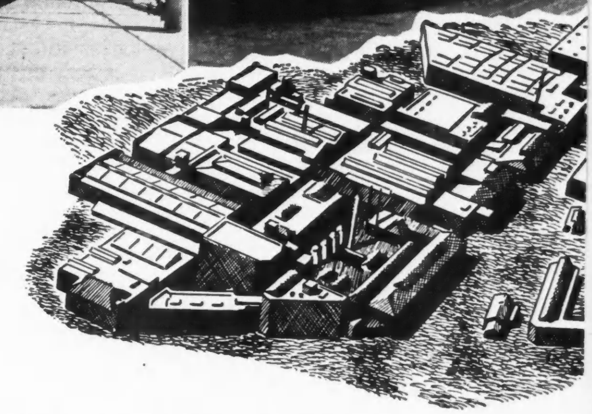
Members attending this month's meeting of the U. S. Chamber of Commerce here heard bi-partisan congressional assurances that the federal budget can be cut deeply, and must have left the Capital asking themselves: If everybody wants to cut spending, why isn't it cut? One of the troubles is that the senators leading the economy drive can't get together on what should be reduced, or even close together on the amount of pruning that is feasible.

Senators Taft, republican, and Douglas, democrat, virtually confessed publicly what those with lesser courage admit privately, namely, that the military are profligate spenders but that much of the country would yell to the Heavens if a substantial slash were made in the service funds. In a lesser amount, the Veterans Administration, say the senate leaders, could safely take a cut; but, again, organized resistance would drive the more timid lawmakers to say no. Other fields of pruning endeavor which were pictured as only for the brave, included the pork-barrell rivers and harbors programs, some irrigation projects, and cutting the mail subsidies.

Since the men closest to the problem agree there's no prospect of getting countrywide backing for reductions at the points where they could count the most, Senator Douglas' figure of a probable 4 billion slash this year seems closer to realization that the 9 billion dollars which Senator Byrd, Virginia democrat, holds out. He would start off by thinning the payrolls – half a billion dollars off the civilian force backing up the military, now on the ratio of one to three. On the civilian overall, Byrd would cut in half the domestic budget, and he'd dig deeply into foreign aid – another field held by a congressional majority to be sacrosanct.

Military men aren't discussing the subject out loud but they're saying privately at the Pentagon that congress' plans to recruit soldiers overseas is at least idealistic and at worse fraught with danger of "infiltration." The lawmakers have set their sights on 10,000 aliens to whom opportunity of officer training would be held out, plus 250,000 to be recruited for the ranks. These forces would be blended with the regular armies. Another proposal is to recruit men for armies of occupation in the countries where they would serve.

The suggestions spring in part from the objection that other members of the United Nations are not sharing the manpower load with the United States. Some congressmen believe entering into competition with those nations for their available men would intensify, rather than improve, that situation.



. . . . *Trends In* . . . .

First Quarter Reports

By H. S. COFFIN

Earnings reports for the March quarter indicate very clearly that the vigor of the post-Korean boom has continued unabated, and in individual cases a good many high records were established. Dollar volume in a broad manner rose to new peaks, and new high quarterly earnings were often reported, although in this respect profits in the December quarter quite as frequently were higher. With very few exceptions, representatives of virtually all major industries experienced a very satisfactory first quarter.

Operations in the January and February months continued to reflect high level demand generated by scare buying in anticipation of shortages and higher prices, but this tended to subside somewhat during April. Rather surprisingly ample stocks of raw materials enabled many manufacturers to produce at capacity, since defense restrictions proved less burdensome than had been anticipated. With prices holding firm at an advanced level and with operating efficiency much improved by postwar plant improvements, taxable earnings rose on a broad front, but net earnings reflected the varying impact of heavier income taxes plus excess profits taxes.

Comparisons with the first quarter of 1950 more often than not reveal substantial earnings gains, but it should be realized that economic conditions now are radically different from those a year earlier. Some concerns, furthermore have failed to readjust their last year's first quarter earnings to allow for retroactive income taxes, while other have done so. Such discrepancies tend to distort comparisons, as it is often difficult to determine what changes have been made. First quarter results in the current year relative to those attained in the December quarter actually give a basis for more interesting comparisons, although allowance must be made for the increased tax rates that became effective on January 1. In some instances, also, the impact of EPT for the last six months of 1950 was fully applied to earnings in the December quarter, thus clouding the true picture.

While industrial earnings generally, to judge from first quarter attainments, create a rosy aspect to the 1951 outlook, it should be remembered that conditions in the second quarter are changing, and that after midyear the accelerated defense program will increasingly affect industrial operations. There is also a distinct possibility that taxes on corporate income will again be hiked during the second half year. Margins will probably narrow on increased military business, and both manpower and material supply problems will likely become more serious, to say nothing of changes in cost-price relationships. All said, accordingly, it would be unwise to assume that first quarter earnings necessarily furnish an entirely dependable clue to expectancies later in this year.

Individual Appraisal Necessary

In the circumstances, it is essential to study high level first quarter earnings somewhat in the light of a possible cushion for an increasing array of handicaps that may soon make their appearance. We append a list of about 40 representative concerns to show their sales and quarterly earnings for five consecutive periods. These firms were not selected for any special reason, hence each one has individual characteristics pertaining to its operations, both in the first quarter and in appraising potentials for coming months. We will now discuss some of the more interesting situations on our table.

Large and steady sales of aircraft products, pushed first quarter volume of Thompson Products, Inc., up to $43 million for a gain of 72% relative to a year earlier. Although operating margins widened on enlarged sales, the net earnings ratio was pared to 4.9%

from 6.7% by increased taxes, both Federal income and EPT. Despite this handicap, though, net per share of $1.93 was earned or a little better than an average profit of $1.86 for the four preceding quarters on smaller sales. These figures are based on the amount of common stock outstanding prior to April 1, 1951, when 131,190 additional shares were sold.

While the management of Thompson Products expects its automotive business to continue at a relatively high level during the second quarter, some decline is anticipated for the second half year. Military demand for aircraft products, though, is increasing at a rapid rate and should continue to do so for many months to come. In the circumstances, the company is vigorously rushing an expansion program to meet defense needs. To provide necessary working capital for increased inventories and construction, the company is negotiating a $35 million Regulation V credit with a group of banks. Altogether, it looks as if this company may be able to earn rather stable profits, unless tax rates are again lifted, but any substantial gains appear improbable for some time ahead.

Sulphur Industry

The acute shortage of sulphur for quite a while past has obliged Texas Gulf Sulphur Company to operate at capacity. Quarterly sales have ranged from a low of $15.6 million in the first three months of 1950 to a high of $18 million in the September quarter, and were $16 million in the quarter recently ended. Variations in output rather than in demand accounted for the differences cited. Through increased efficiency and firmer prices, though, the company absorbed heavier taxes in the late March quarter rather comfortably and reported net earnings of $1.83 per share versus $1.91 in the September quarter on $2 million larger volume. Export shipments in the first quarter were in accordance with Government allocations, but none have been specified for the balance of 1951. It has been indicated, though, that Texas Gulf Sulphur will be expected to supply about two thirds of the tonnage allocated to the Sulphur Export Corporation. Since the demand factor will create no problem for this company for an indefinite period, relatively stable earnings are to be expected.

Sylvania Electric

Sylvania Electric Corporation established new quarterly records for both sales and net earnings in the three months ended March 31, 1951. Volume more than doubled that in the corresponding quarter of 1950, while earnings were larger than those for any entire previous year excepting 1948 and 1950. Net per share of $2.34 in the first quarter contrasted strongly with 77 cents a year before, although Federal taxes on income climbed by $5.8 million. While defense orders are accumulating rapidly, the management states that during the first quarter less than 10% of sales represented military shipments. Export business continues to improve substantially, and demand for incandescent and fluorescent lamps, photoflash bulbs, chemicals and electronic equipment remains heavy. Television sales, though, have tended to recede. Increasing difficulty in securing raw materials, curbs on civilian production and conversion delays suggest that the company's volume for some months to come may not match the rate of the first quarter. Total sales for 1951, though, should exceed those of last year.

The consolidated income statement of Charles Pfizer & Company for the first quarter reveals dynamic progress by this old established chemical firm. Heavy demand for industrial acids, combined with mounting orders for antibiotics, created a first quarter volume of $23.2 million as against $12.1 million in the same 1950 period. The company has experienced a spectacular demand for its new drug, Terramycin, which it is producing in increasingly large amounts and in several different forms for special uses. Penicillin and other antibiotics are in mass production. On greatly enlarged volume and with firm prices, Pfizer's taxable earnings more than tripled those in the first quarter of 1950. Hence although the company's total taxes on income soared to $6.8 million from $1.3 million a year earlier, the increase was easily absorbed and net earnings per share rose to $2.29 from $1.21. If income tax rates are again increased later this year, the quarterly earnings of this concern may be pared somewhat, but a continued possible uptrend in sales could provide some alleviative.

Excellent Showing of Oil Concerns

The large oil concerns fared unusually well in the first quarter, with combined military and civilian demand forcing production of all petroleum items on a record scale. Typical of this industry was the experience of Phillips Petroleum Company. Daily average crude oil runs of this concern through its refineries set a new high of 181,147 barrels compared with 141,688 a year before. Net crude oil production, including the company's share of domestic and foreign subsidiaries, rose to 118,364 barrels per day from 97,479 in the related 1950 quarter. Firmer prices expanded gross income at a faster rate to $141.4 million as against $114.3 million, for a gain of 24%. As large reserves for depletion and depreciation held down tax liabilities, Phillips reported net per share of $2.51 versus $1.66 in the first quarter of 1950. In the December quarter, $2.54 a share was earned with the income tax at a lower rate. As the company completed 95 producing wells in the first quarter and is largely expanding its refinery capacity, the outlook for gradually enlarged sales is bright. Earnings should continue to be satisfactory for an indeterminate period.

Inland Steel Company's management has pointed out that since the outbreak of hostilities in Korea, production records have been brokn month after month, and that at the end of the March quarter further gains were probable. Progress in a vast new construction program during the coming year will continue to expand output well into 1952. Operating margins widened in the first quarter when sales rose to $132 million or 35% above the corresponding period of last year. Although Inland had to provide $13 million for income taxes and $4 million for EPT, net earnings in the recent quarter advanced to $1.90 per share from $1.59 the year previous. During the second and third quarters of 1950, better than $2.40 per share was earned, although year-end adjustments pruned net in the December quarter to $1.21. Since unlimited demand for steel will persist for a long time and Inland Steel will likely operate at a rate in excess of rated capacity, as presently, chances are fair that quarterly earnings will not vary much from those of the first

Quarterly Comparison of Sales and Earnings

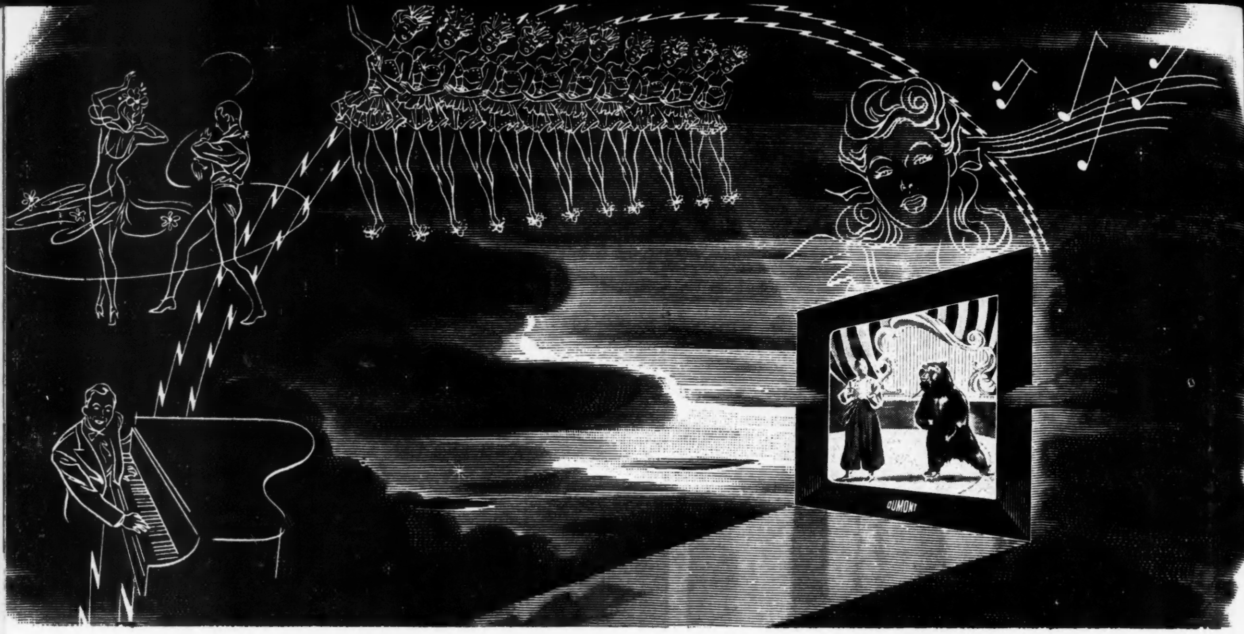
	1951 1st Quarter Net Sales (Millions)	1951 1st Quarter Net Per Share	1950 4th Quarter Net Sales (Millions)	1950 4th Quarter Net Per Share	1950 3rd Quarter Net Sales (Millions)	1950 3rd Quarter Net Per Share	1950 2nd Quarter Net Sales (Millions)	1950 2nd Quarter Net Per Share	1950 1st Quarter Net Sales (Millions)	1950 1st Quarter Net Per Share
Acme Steel	$ 21.6	$ .99	$ 20.0	$ 1.07	$ 16.1	$ .84	$ 16.5	$ .80	$ 16.0	$ .75
Allegheny Ludlum Steel	57.9	2.03	53.1	1.57	46.0	2.14	40.7	1.69	37.5	1.40
American Brake Shoe	37.7	1.37	34.8	1.73	25.2	1.13	25.0	1.37	21.4	.71
American Cyanamid	102.1	2.80	93.3	1.23	84.8	2.76	71.5	2.30	72.7	3.03
American Home Products	......	.71	40.3	.69	43.4	.84	39.0	.74	41.5	.79
American Woolen	33.3	.86	44.5	2.99	42.4	.87	36.0	.56	27.0	(d) .03
Atlas Powder	12.4	.87	12.4	.81	11.5	1.54	9.9	1.30	8.3	.64
Bethlehem Steel	426.4	2.45	398.4	3.19	370.5	3.33	354.5	3.13	316.3	2.50
Blaw-Knox	20.4	.38	18.6	.50	16.7	.56	15.1	.73	11.2	.20
Borg-Warner	100.6	2.41	87.2	2.20	90.9	3.33	82.0	3.89	70.6	2.73
Certainteed Products	16.3	1.18	16.8	1.30	15.7	1.08	12.8	.89	10.4	.66
Colgate-Palmolive-Peet	72.7	2.04	54.3	2.38	62.5	2.58	45.1	.92	49.8	1.79
Doehler-Jarvis	24.0	1.65	28.6	2.08	21.2	1.97	18.7	1.47	14.6	1.00
Du Pont	380.5	1.26	374.9	1.92	350.5	2.08	314.5	1.44	267.6	1.15
Freeport Sulphur	......	1.62	9.7	2.54	7.9	1.96	7.7	2.07	7.8	1.88
Granite City Steel	20.8	1.44	17.4	1.30	15.2	1.57	14.9	2.10	12.0	1.51
Hazel-Atlas Glass	19.8	.49	16.0	.23	17.4	.53	15.8	.51	14.9	.38
Hercules Powder	55.8	1.46	46.3	1.43	42.8	1.52	38.0	1.33	34.2	1.01
Industrial Rayon	16.5	1.32	16.5	1.14	15.6	1.74	15.8	2.00	16.9	1.70
Inland Steel	132.2	1.90	127.1	1.21	122.8	2.47	111.5	2.48	97.7	1.59
Johns-Manville	57.6	1.99	59.4	2.15	55.2	1.81	48.9	1.97	39.5	1.29
Lion Oil	22.3	1.32	21.6	1.52	19.9	1.40	20.2	1.47	20.1	1.58
Lone Star Cement	14.9	1.76	16.2	2.76	17.5	2.81	17.3	3.03	13.2	1.97
Merck & Co.	29.9	1.20	28.9	2.49[1]	24.8	......	21.1	1.97	19.2[1]	......
Monsanto Chemical	67.9	1.25	63.9	.89	60.5	1.81	53.5	1.58	49.1	1.12
Motor Wheel	18.9	.98	16.7	.94	18.9	1.96	16.3	1.70	11.3	.86
National Cash Register	50.6	1.86	51.9	1.87	40.4	1.41	39.5	1.43	38.5	1.32
National Gypsum	21.8	.88	21.4	.86	20.6	1.32	17.5	1.09	16.3	.92
National Steel	......	1.81	157.6	2.03	136.6	1.91	126.7	2.12	116.8	1.82
Pfizer, Chas. & Co.	23.2	2.29	19.1	2.11	16.2	1.86	13.3	1.42	12.1	1.21
Phillips Petroleum	141.4	2.51	153.1	2.54	139.1	2.28	126.2	1.98	114.3	1.66
Pullman, Inc.	40.4	.83	50.0	1.42	44.1	1.24	45.8	1.51	30.5	.43
Rayonier	20.5	2.82	19.1	2.99	16.1	2.13	16.0	4.02	14.9	2.02
Sylvania Electric Products	60.6	2.35	56.8	2.06	44.6	1.90	31.7	.64	29.3	.77
Texas Gulf Sulphur	16.0	1.83	17.9	1.70	18.0	1.91	17.6	2.22	15.6	1.92
Thompson Products	43.0	1.92	37.7	1.67	31.9	2.13	28.4	2.18	25.2	1.53
Union Bag & Paper	26.6	2.45	23.7	2.26	20.9	1.95	18.5	1.67	17.1	1.47
United Aircraft Corp.	87.9	1.28	75.9	1.33	60.2	.97	67.4	.99	65.6	1.19
U. S. Steel	819.4	1.62	817.2	1.16	750.3	2.05	752.8	2.44	634.7	1.64
Wheeling Steel	58.3	3.22	50.9	2.95	50.5	3.78	44.2	2.95	39.1	1.79
White Motor	36.4	1.99	29.5	2.50	28.6	1.50	24.9	1.61	19.5	.53

(d)—Deficit. [1]—6 months.

quarter, at least until heavier taxes may be imposed.

American Brake Shoe Company could probably be listed among concerns whose December quarter earnings of $1.73 per share may not be equalled for some time to come. Although first quarter sales in the current year were 8.5% above the preceding period, income and excess profits taxes hit the ceiling of 62% and pared net income to $1.37 per share. Earnings equalled a moderate 4.9% on sales. Since unfilled orders rose from $42 million on January 1 to $57 million more recently, the highest in the company's history, increased volume might widen margins, but the management cautions that materials and manpower shortages, possible price rollbacks, renegotiated profits on Government business, together with proposed higher income taxes create endless uncertainties. Still, the first quarter earnings of $1.37 per share compared favorably with 71 cents in the related span of 1950, thus providing a good start for the current year.

Colgate-Palmolive-Peet Company's domestic sales in the first quarter rose sharply to $72.7 million as compared with $49.8 million the year before, while volume of foreign subsidiaries rose to $32.3 million from $22.1 million. Since only dividends received from these non-consolidated subsidairies are included in the parent company's income, earnings as reported are well on the conservative side. First quarter net income of $2.04 per share was 25 cents higher than in the first three months of 1950 but below the $2.38 earned in the December quarter. This circumstance reflects the impact of increased income taxes and moderate income from foreign dividends. Now that American dollars are in free supply, there is a chance that Colgate's revenues from foreign sources may expand considerably, since the company's foreign business has become very lucrative to its subsidiaries. During 1950, Colgate's (*Please turn to page* 215)



Changed Outlook for
TELEVISION

By GEORGE W. MATHIS

The Radio-Television Manufacturers Association reports that production of television sets in the first quarter of 1951 exceeded the corresponding quarter of last year by 37 per cent despite growing evidence of sticky inventories. The Association adds, however, that preliminary figures for the second quarter indicate output is declining, in contrast to the rising trend a year ago. By far the greatest part of last year's record output was achieved in the third and fourth quarters, it was pointed out.

The RTMA figures reveal how rapidly the industry is approaching saturation of presently available markets. Production for the first three months totaled 2,199,669 television sets. This would indicate a production capacity of close to 9 million sets a year, about 50 per cent more than last year's output. For comparative purposes, the last estimate of the number of radios in use in the nation was about 86 million, which of course includes portables and automobile sets. This is about two for each family. When television reception is available in all parts of the country, it is accordingly not unreasonable to assume that the number of sets in use could reach 50 million units, about one for each family. This highlights the industry's long term growth potential despite its present temporary difficulties.

Nobody knows what the rate of obsolescence will be, but if it averages 5 years, the industry would have a continuing market for 10 million sets a year—enough to absorb current capacity, but not much more.

This is all in the future, of course. At present, only about 30 million families in the U. S. are within range of telecasting stations, and only about 9 million of these own television sets.

Network expansion is the key to further growth of the industry. The Federal Communications Commission in September of 1948 instituted a "freeze" on new station construction. The Commission then stated that it needs time to work out a channel allocation system to accommodate as wide an area as possible and avoid interference between stations.

More recently, there has been a decision to lift the "freeze" but just when it will be actually done is not quite clear at this moment. At any rate as long as the freeze is in force, it acts as a brake not only on network profits but on the sales of receivers as well.

Several of the set manufacturers own television networks, but these have thus far been unprofitable. Du Mont, RCA and Avco, for example, have networks in addition to manufacturing facilities, and the last two combine their telecasting with radio broadcasting.

Network losses have been diminishing, however, and they should soon be transformed into profits. Television advertising revenue is growing, and it is giving radio broadcasting so much competition that both the Columbia Broadcasting and National Broadcasting Systems have been forced to reduce radio rates. A leading advertising agency announces that for the fiscal year starting next September, its TV billings will exceed its radio billings.

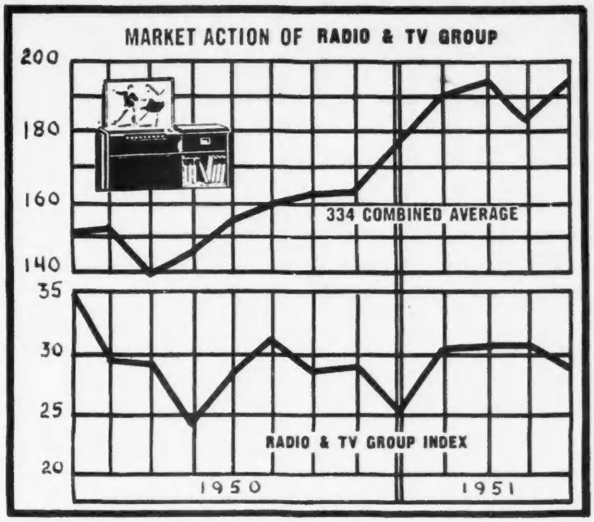
Other Roadblocks

Other temporary roadblocks in the industry's development are credit restrictions imposed under Regulation W, prospective steep excise taxes, material shortages stemming from the preparedness program, and the color controversy.

Although there seems to be an oversupply of television sets now, due largely to the credit restrictions, scarcity of materials later in the year may change the situation. Production, now voluntarily curtailed in many instances because of the demand situation, may come into better balance as the industry progressively swings into defense work.

The color controversy is still in the courts as a result of a challenge by RCA of the FCC decision to use the CBS incompatible color system. Although this litigation as well as the defense program have pushed the color dispute into the background, it may arise again to plague the industry unless there is a clear-cut settlement.

The credit restrictions, the excise tax and the material shortages, present and prospective, are all part of the same problem, namely rearmament. The Government does not want critical materials, such as cobalt, to be diverted from the arms program, hence the material allocations. It does not want a diminishing supply of consumer durables to be bid up in price, hence the credit restrictions. And it wants to increase the Treasury's revenues and reduce disposable personal incomes, hence the excise tax.



Don't Discount Same Factor Twice!

Thus if one discounts the unfavorable factors arising from the rearmament effort, one should be careful not to discount the same factor more than once. The credit restrictions, now calling for a 25 per cent down payment, are nothing but the monetary phase of the proposed production cutback forced by material restrictions. Both will reduce output to a level which would be reached anyway even if only one of the factors were operative.

As a compensating feature, the set makers will increasingly participate in the defense program. Almost all of them report a growing backlog of military orders. They can make electrical equipment for radar, communication systems, guided missiles and indeed almost all modern armanent. They have done it before; and while they do not expect this type of work to be as profitable as civilian production, it will at least take up the slack.

The tax position of the television companies would be very grim indeed if it were not for the growth provisions of the Excess Profits Tax Act. The average earnings in the best three years of the 1946-49 period are much lower than last year's and even current earnings, thus would provide a highly unsatisfactory EPT cushion were it not for relief provisions.

Under the "new products" formula, for which most of the television companies qualify, they may

Statistical Data on Leading Manufacturers of Television Sets and Parts

	Net Sales (Millions) 1st Quar. 1951	Net Sales (Millions) 1950	Net Sales (Millions) 1949	Net Per Share 1st Quar. 1951	Net Per Share 1950	Net Per Share 1949	Div. 1950	Recent Price	Div. Yield %	Price Earnings Ratio†	Price Range 1950-51
Admiral Corp.	$ 70.3	$230.4	$112.0	$ 1.25	$ 9.53	$ 4.12	$ 1.00	23	4.3%	2.4	39¼-22¾
Avco Mfg.	86.3	256.9[1]	137.4	.40	1.47[1]	.54	.60[13]	8	7.5	5.4	9⅛- 7⅝
Columbia Broadcasting "A"	39.3	124.1	105.4	.74	2.39	2.44	1.60	31⅝	5.6	13.2	40¼-25⅝
Cornell-Dubilier Electric	8.2[16]	23.9[2]	13.6	.74[16]	3.96[2]	.86	.95	14	6.8	3.5	17¼-10⅜
Du Mont (Allen B.) Laboratories	......	76.0	45.1	......	2.87	1.49	1.00	17⅜	5.7	9.4	27 -13⅛
Emerson Radio & Phonograph	24.4	78.1[3]	40.5	.78	3.37[3]	1.57	1.00[13]	13⅜	7.5	4.0	18⅜- 7⅜
General Instrument	......	25.8[4]	13.6[5]	......	......	(d) .22[5]	.40	9½	4.2	......	13½- 8¼
International Tel. & Tel.	......	216.9	201.0	......	2.38	.72	.30[14]	15¾	1.9	6.6	18¼- 9¼
Magnavox	39.4[6]	31.7[7]	6.3[8]	3.40[6]	2.81[7]	(d) 1.35[8]	1.00	16⅜	6.1	5.9	24¼-10⅞
Motorola, Inc.	......	177.1	81.8	......	14.56	6.00	4.50	51¾	8.7	3.5	52 -21⅜
Philco Corp.	......	335.3	214.8	......	4.29	1.51	2.55	23¾	10.7	5.5	27¼-16¾
Radio Corp. of America	185.5	584.4	396.1	.80	3.10	1.58	1.50	19⅛	7.8	6.1	23¼-12¼
Raytheon Mfg.	64.0[9]	59.5[10]	56.2	.93[9]	.49[10]	.49	......	9¾	......	19.9	13½- 6¼
Sparks Withington	14.0[17]	17.0[7]	16.8	.56[17]	.49[7]	.004	.20[14]	6⅜	3.1	13.0	10¼- 4½
Stromberg-Carlson	8.1	37.6	29.5	.63	2.79	(d) 2.06	[15]	12½	......	4.4	17⅝-10¼
Sylvania Electric Products	60.6	162.5	102.5	2.35	5.37	1.83	2.00	29⅝	6.7	5.5	30 -18¼
Zenith Radio	37.0	87.7[11]	99.2[12]	4.53	11.43[11]	10.70[12]	3.50	65⅝	5.3	5.7	71½-31½

†—Based on 1950 earnings.
(d)—Deficit.
1—Year ended Nov. 30, 1950.
2—Year ended Sept. 30, 1950.
3—Year ended Oct. 31, 1950.
4—Year ended Feb. 28, 1951.
5—Year ended Feb. 28, 1950.
6—9 months ended Mar. 31, 1951.
7—Year ended June 30, 1950.
8—4 months ended June 30, 1949; adjustment to new fiscal year.
9—9 months ended Feb. 28, 1951.
10—Year ended May 31, 1950.
11—8 months ended Dec. 31, 1950; fiscal year changed.
12—Year ended April 30, 1950.
13—Indicated 1951 dividend rate.
14—Paid thus far in 1951.
15—Paid 10% in stock in 1951.
16—Quarter ended Dec. 31, 1950.
17—6 months ended Dec. 31, 1950.

compute their EPT credit on 1949 profits alone, or on a combination of 50 per cent of 1949 earnings plus 40 per cent of 1950 earnings, or 50 per cent of 1948 earnings and 40 per cent of 1950 earnings.

However, while these formulas improve their position materially, their tax vulnerability is still considerable.

Thus *Admiral Corporation* during the first quarter of 1951 set up a tax reserve of $6,087,119, an amount equivalent to 72 per cent of its reported pretax profits of $8,490,463. The tax provision for the 1950 first quarter was only $2,593,443. While the ceiling rate under the present tax law is 62 per cent for corporate income and excess profits taxes combined, the company attributed its seemingly excessive tax accrual for the recent quarter to the fact that its subsidiaries submit separate tax returns, which may include taxes on intercompany profits.

High Vulnerability to E.P.T.

These discrepancies will be eliminated when the final consolidated return is made for the full year, but it may be prudent to assume that the company faces maximum vulnerability to EPT. The actual EPT payment of $3,315,300 for 1950 would suggest this.

Meanwhile the huge tax bite reduced Admiral's net earnings for the March quarter to $1.25 a share, well below the $2.08 reported for the like period last year, despite a 52 per cent increase in sales and a 26 per cent gain in pretax earnings.

Admiral's growth has indeed been phenomenal, particularly since it is not entirely a television company. Refrigerators, electric ranges and radios remain important products of the company. Sales for 1950 totaled $230,397,661, more than twice the 1949 total and almost 25 times the 1941 volume of $9,399,024.

The company made almost a million television receivers last year. Productive capacity was increased from a rate of 2,700 sets a day at the beginning of 1950 to about 5,000 in September.

Ross D. Siragusa, president of Admiral, has stated that the company may have to borrow from banks to carry its growing inventories of .television sets. These inventories have been piling up on distributors and in factory branches since March 1, he said. He attributed the slump in television sales to the credit restrictions. Other appliances, he said, are selling well, but the drop in television volume may reduce over-all profits this year.

Du Mont (Allen B.) Laboratories

Du Mont Laboratories. Inc., in line with the recent softness in the industry, has announced price cuts on three cathode ray picture tubes used by television set manufacturers. Reductions range from $1.50 on the 17 inch tube to $11 on the 19 inch tube.

But despite current difficulties, the company's long range prospects still look impressive. Gross income for 1950 soared to $76,362,665 from $45,267,089 in 1949 and only $643,950 in 1941.

Thus, in less than ten years, there was more than hundredfold expansion of the company's volume. Although Du Mont sold 250,000 Class A common shares last year, per share earnings for 1950 totaling $2.87 were almost double the $1.49 realized in the preceding year. Because of this growth, Du Mont would have had no tax base to speak of for EPT purposes, were it not for the growth provisions of the law as finally passed.

These provisions saved the company 37 cents a share for 1950, and the amount saved will be larger in 1951. The company's EPT liability remains quite high, however.

Du Mont's television network continued in 1950 to operate at a loss, although the loss was considerably smaller than in the previous year. The number of national advertisers using the network facilities increased steadily, the company reported, and the possibility of a substantial profit is seen for this division after the FCC lifts the freeze on new station construction.

Philco Corporation also qualifies as a growth company under the EPT law, although television business is believed to have contributed no more than 45 per cent of over-all volume in 1950.

The 1950 EPT payment nevertheless amounted to $2,125,000, which would indicate an EPT credit of about $20,000,000 before all taxes, or about $2.60 per common share after regular corporate taxes of 47 per cent.

Philco reports that its backlog of Government orders are steadily increasing, and production on them will become of growing importance in the last half of this year and during 1952.

RCA Has Best Quarter in History

RCA recently reported the best first quarter earnings in its history. Net for the March quarter equalled 80 cents a share compared with 75 cents in the first 1950 quarter. The tax provision amounted to $15,842,000, equal to 57 per cent of reported pretax profits of $27,743,542. Approximately $2,000,000 of the total tax was for EPT.

A company official has estimated the EPT credit at "somewhere between $1.50 and $2 per share," presumably after regular corporate taxes.

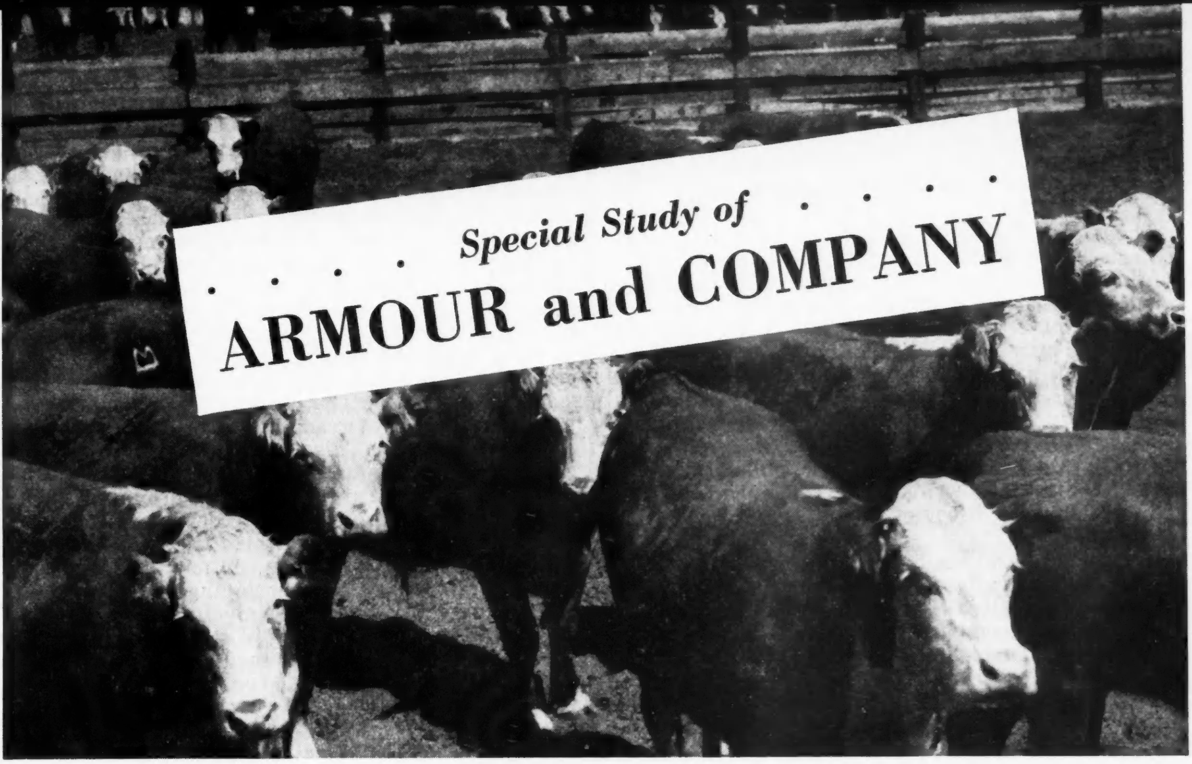
Government orders have recently reached a volume that required conversion of some of RCA's commercial production facilities and it is anticipated that for the next two or three years, substantial portions of the company's facilities will be devoted to the production of electronic apparatus for all branches of the Armed Forces.

Sylvania Electric Products recently reported a stunning first quarter. Sales of $60,631,085 more than doubled those of the 1950 first quarter, and pretax net was five times as large. The tax bit was $6,665,000 against only $869,600 a year ago, but net after taxes still soared to $3,515,155 or $2.35 per share, by far the best quarter in Sylvania's history. The 1950 first quarter net was $1,225,844 or 77 cents a share. The tax provision exceeded 62 per cent of reported pretax profits, indicating maximum vulnerability to EPT.

The company's backlog of defense orders now totals $75,000,000, President Don G. Mitchell has announced. To finance the expansion of plant and equipment and to increase working capital, Sylvania has just sold 400,000 shares of common stock at 29⅛.

Zenith Radio has changed from a fiscal to a calendar year basis effective Jan. 1, 1951. For the March quarter, the company earned $4.53 per share, the largest amount earned in any quarter. The tax provision took 52 per cent of pretax net.

Although Zenith is active in all phases of television as well as radio, (*Please turn to page* 220)



Special Study of ARMOUR and COMPANY

By STANLEY DEVLIN

The recent upsurge in popularity of "wonder drug" stocks naturally has spurred interest in other issues offering promising potentials along similar lines. On this basis, an examination of Armour and Company appears justified. Although pharmaceuticals so far probably have contributed little if any to the company's earning power, they illustrate what may be accomplished through diversification and by emphasis on wider profit margin products. Already chemicals and other by-products of the meat packing operation have become an important source of profits.

Any discussion of this second largest meat packer must take into account the highly uncertain business of processing livestock, however, for in the case of Armour as also with its principal competitors, operating results are determined by price fluctuations of the raw material and the finished product moving to market. Because of the need for price control in the current national emergency, meat packers face a difficult situation. They must endeavor to maintain a reasonable margin of profit while processing meat for the consumer under a system of price controls that may prove difficult to enforce so far as livestock is concerned. In appraising the outlook for this company, therefore, one must not ignore the vital problem of price regulation.

Because chemicals and pharmaceuticals hold greater appeal to the imagination and are becoming increasingly important earningswise, it may be well to consider these activities before turning to intricate problems of the more prosaic side of the business. Management has recognized that meat processing represents a sort of "public utility" function which must be performed under such strict regulations—actual as well as implied—that it would be fruitless to expect to achieve substantial earnings merely in processing livestock for the market.

Only through enlargement of non-food production and development of wider-margin meat items can the company hope to counteract ordinary risks inherent in the business. In a search for marketable products offering exceptional profit margins, the company was led to experiments in pharmaceuticals – particularly, ACTH (adrenocorticotropic hormone). Another product is high purity crystalline trypsin designated by the company as "Tryptar."

Most persons familiar with so-called "miracle drugs" are familiar with development of ACTH, an extract from the pituitary glands of animals. Armour Laboratories, the pharmaceutical division, first announced successful production of the product two years ago. In the last year, output has been enlarged and the price has been reduced by one-half. Armour's brand has been approved by the United States Food and Drug Administration, according to officials, for dispensing by or on the prescription of a physician. It has been made generally available to physicians and druggists, according to the company, which says it has been sold to more than 3,000 hospitals in this country. Commenting on this aspect of the business, the company's latest annual report says:

New Beneficial Uses Constantly Being Discovered

"The drug is still new. Beneficial uses of Acthar (Armour's trade name) are constantly being discovered. In addition to a proven ability to reverse the course of such serious diseases as rheumatoid arthritis, rheumatic fever, gout and asthma, Acthar has been used successfully in the treatment of surgical cases, severe burns and in skin grafting. Armour scientists are continuing research to develop improved uses of the drug, additional sources of raw material and methods of synthesizing. This work is being carried on in collaboration with leading scientists and academic groups here and abroad. Armour's

part in producing and developing Acthar has received favorable comment throughout the year from professional groups and the press and radio. This is another practical example of the value of Armour's research program."

Need For New Raw Material Sources

The hint at the need for developing additional raw material sources as well as for possible methods of synthesizing is significant. According to medical science, there is no doubt about the potential market for large quantities of the drug. Sales presumably are limited only by the population of animals offered by livestock raisers. Armour scientists are hopeful that their research program eventually will reveal the key to producing a synthetic drug. Such a discovery might well provide a basis for substantial profits in this division, for it seems doubtful that raw material sources now available could provide sufficient volume to become an important source of income.

Significant new uses have been found for Tryptar through a cooperative project conducted by Armour and a group of Ohio State University surgeons, according to the company. Tryptar, which has been produced by Armour in small quantity for bio-chemical research for several years, is derived from an enzyme produced by the body in the pancreas. Clinical tests indicate, the company says, that Tryptar has the power to dissolve dead tissue and other protein in wounds and infections without affecting living tissue. This permits healing of chronic wounds and improved operating procedures, it is claimed. Although this product is not so urgently in demand as Acthar, the company is taking steps to obtain increased production and distribution in the belief that new uses may be found which would greatly enlarge market potentials.

Probably the importance of non-food operations is not fully appreciated, for one normally associates Armour with "Star" ham, bacon, sausages and other meat products. Nevertheless, a wide variety of other products contribute importantly to sales and many persons may be surprised to learn that chemicals, soaps, abrasives, curled hair, adhesives, pharmaceuticals, fertilizer, leather and wool operations accounted for 58.5 per cent of last year's $19 million earnings. Food operations, including dairy products as well as meat, brought in only $7.9 million of earnings. It is little wonder, therefore, that the management is striving to place greater emphasis on better profit margin products, since meat undoubtedly accounts for the greatest proportion of sales.

The management is optimistic over the outlook for chemicals. Some of the company's most advanced work in the last year has been in new chemical products at the McCook plant near Chicago. Recent developments have placed the company in the forefront in producing a series of new and promising derivatives in the broad field of fat and oil chemicals, according to the annual report. With completion of the last of major production units in recent months, the plant has begun to reach capacity output with encouraging results. This activity offers the hope of greater stability in earning power.

Substantial quantities of soap are produced, including special all-purpose bar soap developed for use in hard, soft and sea water which the armed services have taken in large volume. A new surgical liquid soap containing an antiseptic ingredient also has been made available. The company is actively promoting its new "Dial" brand of facial soap for which special advantages are claimed. This product also is believed susceptible of considerable growth in volume.

Other Diversified Products

Many types of coated abrasive items are produced in the compay's new plant in Alliance, Ohio. They are used in a variety of industrial and commercial applications ranging from 20-foot belts for polishing stainless steel to one-inch pads for buffing women's shoes. Another activity at the Alliance plant is the manufacture of "Hairflex" on a continuous production line. This is a high quality combination rubber and hair upholstery padding suitable for mattresses, furniture and passenger car seats. A new glue manufacturing plant was opened in St. Paul about a year ago as a step in gaining maximum recovery from by-products. The plant has a capacity for 2.5 million pounds of glue annually. Other plants in Chicago and Omaha are engaged in producing adhesives.

Long Term Operating and Earnings Record

	Net Sales	Operating Income	Operating Margin	Taxes	Net Income	Net Profit Margin	Net Per Share	Div. Per Share	Percent Earned on Invested Capital	Price Range
	(Millions)	(Millions)	%	(Millions)	(Millions)	%			%	
1951 (13 Weeks ended Jan. 27)	$549.7	......	......	......	$ 7.6	1.3%	$ 1.70	......	......	[1]12⅝-10⅛
1950	1,859.8	35.2	1.8%	$12.7	19.0	1.0	3.94	......	10.2%	11⅝- 7⅝
1949	1,848.2	7.9	.4	1.2	.5	.03	(d) .60	......	.2	8½- 5
1948	1,991.4	4.8	.2	[2]	(d) 1.9	(d) .1	(d) 1.22	$ .90	......	15⅛- 6⅞
1947	1,956.4	58.0	2.9	21.0	22.9	1.1	4.91	......	11.0	15⅞- 9¾
1946	1,183.5	62.8	5.3	24.0	20.7	1.7	4.27	......	10.8	18½-10½
1945	1,212.9	29.1	2.4	8.8	9.1	.7	1.41	......	5.1	15 - 6⅜
1944	1,477.9	50.8	3.4	31.6	11.2	.7	1.91	......	6.6	6⅞- 4⅞
1943	1,416.5	44.3	3.1	23.4	14.5	1.0	1.97	......	9.1	6⅜- 3
1942	1,300.0	32.0	2.4	11.6	15.9	1.2	2.16	......	7.5	4⅛- 2½
1941	926.2	27.1	2.9	7.3	16.3	1.7	2.24	......	7.3	5½- 2¼
10 Year Average 1941-50	$1,517.2	$35.2	2.4%	$14.1	13.2	.9%	$ 2.28	$ .09	6.7%	18½- 2¼

(d)—Deficit. [2]—Tax credit of $2,006,639. [1]—To May 3, 1951.

Another fairly new plant is located in Barstow, Florida, where fertilizer is produced. This unit has been in operation a little more than a year and is enlarging output to 150,000 tons annually of triple super-phosphate, a highly concentrated fertilizer ingredient. Products of this plant, which contribute importantly to the Armour diversification program, are being shipped to twenty-seven other fertilizer factories in the Armour group. Another product is "Vertagreen" plant food distributed in retail packages for use in lawns, flower beds and in vegetable gardens.

Other activities in which the company has been engaged for many years include leather tanning for the shoe industry and for use in leather belting. The company is recognized as a leading producer of sole and upper leather for shoes. Another subsidiary prepares wool, tans and manufactures sheepskin leather and markets these products.

Meat Processing Remains Chief Activity

Notwithstanding an intensive diversification program, the processing and distribution of meat and packaged meat products constitutes the company's chief activity. Management continues to strive for greater efficiency in marketing to obtain a satisfactory return on meat lines. In this connection new items in the frozen food group are being added. Individually packed cuts suitable for distribution in self-service freezers in grocery stores are being stressed so as to obtain wider mark-ups.

New facilities have been installed for enlarging distribution of canned meats and dry sausages. These items also offer the prospect of better margins than obtainable from fresh meat. In other ways, such as through improvement in distribution outlets, the company has been engaged recently in strengthening its competitive position.

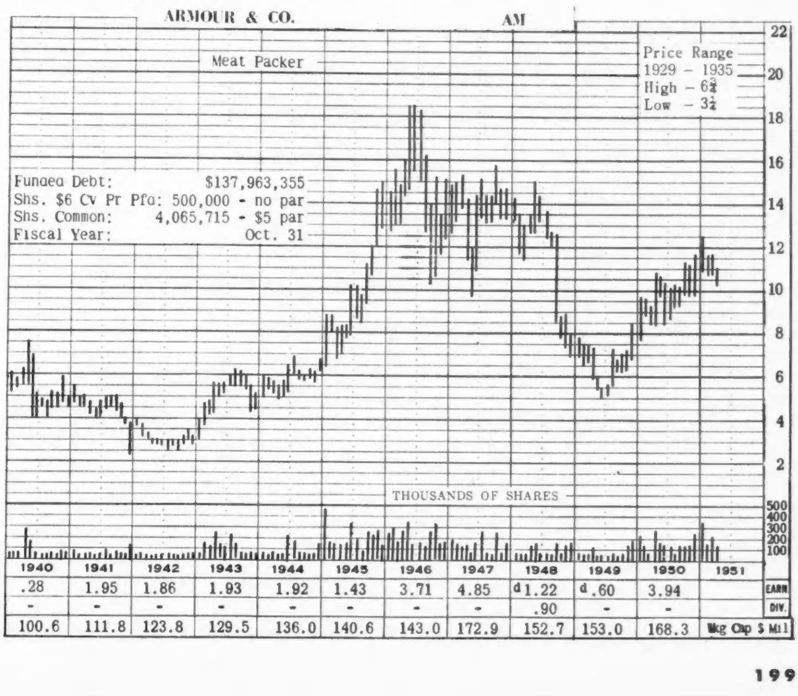
Were it not for price control regulations issued in Washington recently, the outlook for meat packers would be regarded as rather favorable. Livestock supplies ordinarily would be ample if raisers send their herds to market in normal fashion. Consumers are well supplied with cash, a reflection of high industrial activity and good wages, so that packers might have looked forward to a substantial improvement in volume and better-than-usual margins. Results still may prove quite satisfactory, but no one in the business is willing to forecast what may happen if the program set forth by O. P. S. Director Michael V. DiSalle actually becomes effective. There have been threats of strikes as well as hints of early marketing before price ceilings are imposed on growers. Disruptions in normal marketing arrangements frequently impose costly burdens.

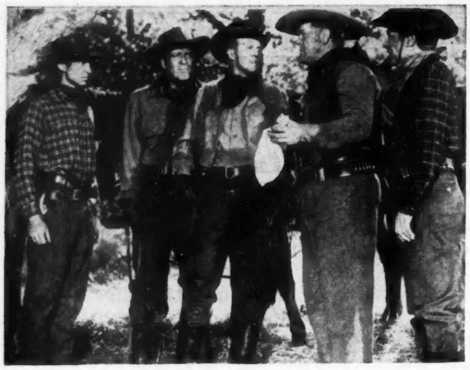
The plan announced several weeks ago to put into effect specific price ceilings for beef in the hope of achieving savings for the public of as much as $700 million annually envisions a price cutback on August 1 of 4 to 5 cents a pound and another rollback two months later. Presumably the packer would feel the brunt of the measure, although the Office of Price Stabilization's elaborate regulations would reach back to the livestock raiser. Protests have been loud in their behalf, and the industry appears considerably confused at the moment.

Meat prices have been climbing steadily for almost a year—especially after the Korean invasion brought about greatly increased military requirements to take care of the armed forces. Stimulated industrial activity, accompanied by numerous wage increases, also found reflection in an (*Please turn to page* 221)

Comparative Balance Sheet Data

	November 1 1941	January 27 1951	Change
	(000 omitted)		
ASSETS			
Cash	$ 18,281	$ 37,267	+$ 18,986
Receivables, Net	52,952	96,339	+ 43,387
Inventories	118,999	229,493	+ 110,494
TOTAL CURRENT ASSETS	190,232	363,099	+ 172,867
Net Property	141,577	155,287	+ 13,710
Investments	9,777	13,447	+ 3,670
Other Assets	5,813	18,717	+ 12,904
TOTAL ASSETS	$347,399	$550,550	+$203,151
LIABILITIES			
Notes Payable	$ 47,220	$116,032	+$ 68,812
Accounts Payable	12,205	35,686	+ 23,481
Accruals	4,595	836	— 3,759
Tax Reserve	14,386	40,599	+ 26,213
TOTAL CURRENT LIABILITIES	78,406	193,153	+ 114,747
Reserves	4,120	29,375	+ 25,255
Other Liabilities	2,152	7,656	+ 5,505
Funded Debt	63,138	136,007	+ 72,869
Preferred Stock	109,791	50,000	— 59,791
Common Stock	20,328	20,328	......
Surplus	69,464	114,031	+ 44,566
TOTAL LIABILITIES	$347,399	$550,550	+$203,151
WORKING CAPITAL	$111,826	$169,946	+$ 58,120
CURRENT RATIO	2.4	1.8	— .6





What's Ahead for the Motion Picture Industry?

By GEORGE L. MERTON

Four years of rather steady retrogression in the motion picture business naturally have cast a shadow over equities in this group. Share prices of some of the leading concerns have declined to about 40% of their 1946 highs, in marked contrast to the vigorous uptrend in most industrial stocks. In the circumstances it is timely to study whether the deflated quotations are justified or not.

Beyond the least doubt, the industry has had to cope with a very discouraging array of readjustment problems in postwar, and about as fast as some of them were resolved, new and equally adverse handicaps have made their appearance. At the start of 1951, such major uncertainties clouded the horizon that general opinion viewed the longer term outlook for the industry with pessimism. To strengthen these dismal surmises, indications are rather clear that in the current year, net earnings of the industry may continue in a moderate decline.

Factually, last year's average movie attendance of 57 million compared with 62 million in 1949 and was far below the satisfactory level of 80 million in booming 1946. It is widely admitted, of course, that sharply rising competition from television, of which some 8 million sets are now in use, substantially accounted for the drop in attendance, although opinions differ sharply as to the weight of this factor.

If the view is accepted that the TV competition entirely was responsible for the decline in movie attendance, and the downtrend will continue unabated as ownership of TV sets mounts to a projected 40 million in due course, a dismal attitude towards the future of the movie theaters would seem logical perhaps. Spokesmen for the picture houses, though, aver their surveys indicate that television thus far has been responsible for about only a third of the decline in movie attendance, attributing the balance to other factors such as changes in picture preferences, an increasing share of outdoor diversions, spendable income pinched by instalment credit payments, etc. To back up these assertions, it has been pointed out that although 65% of families in populous centers now own TV sets, the decline in picture house attendance last year was only 8% for all reasons. It is also held that the novelty of television is wearing off somewhat, and that in the long run the clearer definition and scope of the big screen pictures, plus the advantage they offer as relief from home environment will permanently assure their popularity.

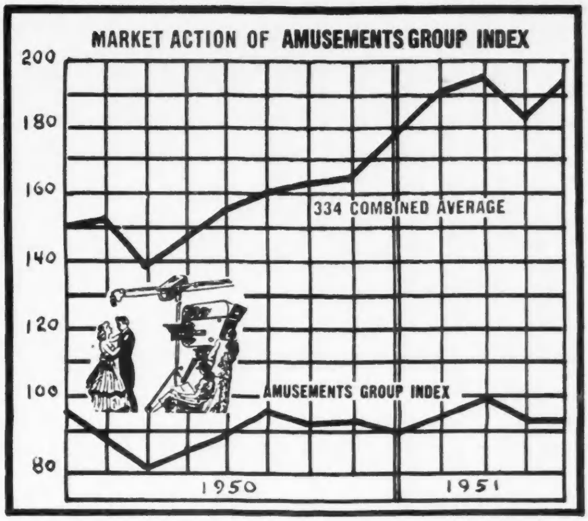
Thus on balance, the picture house chains with proper administration may continue to prosper, although perhaps not in a degree equal to former years, when some of them fared unusually well even in depression periods. While the enforced segregation of movie theaters from their former producing units may create unforeseen handicaps, it is still too early to judge from actual results since only a few of the separations have become effective yet. From a competitive angle, some advantage may be derived from the fact that more than 600 marginal picture houses have closed their doors because of the prolonged decline in attendance. It is also true that the latter trend may be reversed after midyear, when accelerated defense activities are expected to swell spendable income by more than 10%. Rising costs and increased income taxes, though, will likely impair the earnings potentials of most movie chains in 1951.

Looking ahead, there is a good chance that theater television shows will gain in popularity as time passes. In this event, the development of TV may lose a good deal of its threat. The large screen presentations of national and sporting events are already swelling box office receipts, with every prospect of providing added attraction. Aside from this, a startling innovation for the theaters may result from the activities of a newly formed company that proposes to offer "Cineramas" such as have proved highly effective in training the Armed Forces. In these settings the audience is literally surrounded by sight and sound, and enjoy the sensation of actually partaking in the drama presented. The main reliance of the theaters, though, will continue to be the endless stream of new films from Hollywood and abroad, especially those not simultaneously appearing on

television sets in the home. Upon the popular appeal of these showings will hinge the long term progress of the motion picture houses, and the producers are on their toes to meet the challenge.

Moving picture producers, while adversely affected by the decline in film rentals, still claim they will benefit in the long run from the development of television, and a number of them are vigorously promoting this new art. Since the aggregate of TV channels is rapidly expanding, it seems certain that there cannot be near enough "live" stars to meet requirements, and that the permanent growth of television in competing with the theaters cannot possibly depend on mere telecasts of sports and news events. In other words, special films from Hollywood must be presented on an increasing scale.

The recent test of Phonevision by Zenith Radio Corporation in Chicago, where 300 families could view films on the home sets at a cost of $1, is claimed to have been spectacularly successful. If other markets prove as receptive to this special innovation, and similar projects are developed, many of the leading Hollywood producers could experience a marked revival in prosperity, and undoubtedly on a permanent basis. After all, as a certain production executive has aptly pointed out, television is merely presentation of a picture from a distance rather than from a nearby film: hence the problems and opportunities for both motion pictures and TV are closely associated. In one respect this has been shown by the increased use of TV to advertise motion pictures.



Foreign Revenues

More favorable economic conditions in England and other foreign countries have not only improved the revenues of over-seas subsidiaries of the leading American producers, but also have enabled them to receive larger dollar remittances. Until early last year, foreign currency restrictions and heavy competition from foreign films in Europe, combined with the downtrend in attendance at home, were chiefly responsible for the discouraging experience of the Hollywood firms. Under the terms of the new pact with England, to run until October 31, 1951, American concerns are permitted to withdraw $17 million of their earnings, aside from bonuses that may add up to $4 million. The more freely available dollars in other foreign countries, as exports to aid the U.S. defense program tend to increase, will also benefit the operations of our movie producers in the current year, although probably not enough to offset prospectively lessened domestic revenues.

For several years past, movie producers have effected major economies in their output of films, sharply cutting former extravagant costs and reducing the length of feature presentations. By this process, amortization charges have lessened in amount and will continue to benefit operating potentials. Best of all, some of the leading producers, especially those now segregated from their theater chains, enjoy exceptionally strong financial positions that should permit distribution of a large share of earnings and to some extent tend to stabilize dividends. Additionally, ample finances will permit gradual development of improved films and whatever new and possibly interesting methods of picture making emerge on the scene.

(*Please turn to page* 218)

Statistical Summary of Leading Motion Picture Companies

	Net Sales 1st Quarter 1951 (Millions)	Net Sales 1950 (Millions)	Net Sales 1949 (Millions)	Net Per Share 1st Quarter 1951	Net Per Share 1950	Net Per Share 1949	Div. 1950	Recent Price	Div. Yield %	Price Earnings Ratio†	Price Range 1950-51
Columbia Pictures	$17.6[7]	$ 57.2[1]	$ 53.3	$ .79[7]	$2.58[1]	$1.08	$ .75	12¾	5.9%	4.9	14⅞-10⅝
Loew's, Inc.	93.1[2]	178.0[3]	179.3	.82[2]	1.53[3]	1.31	1.50	16	9.3	10.4	19½-12¼
Paramount Pictures Corp.	—	81.8	78.2	—	2.67	1.00	2.00	23⅛	8.6	8.7	25⅛-17½
RKO Pictures	—	—	52.1[4]	—	—	d1.08[4]	—	3½	—	—	4½- 2½
RKO Theatres	—	—	42.1[4]	—	—	1.07[4]	—	3¾	—	3.5	5¼- 3⅝
Republic Pictures	8.1	30.3[5]	28.0	—	.20[5]	.05	—	3⅞	—	19.0	5⅝- 3
Technicolor	—	23.4	20.1	—	2.40	2.56	2.00	20⅜	9.8	8.4	26¾-16¼
Twentieth Century-Fox	—	165.0	182.9	—	3.26	4.28	2.00	21	9.5	6.4	25½-18⅛
United Paramount Theatres	—	97.1	89.9	.75	3.72	5.39	2.00	18⅛	11.0	4.8	24 -15⅛
Universal Pictures	—	55.5[5]	56.7	.04	1.14[5]	d1.45	—	10	—	8.7	12⅜- 7⅛
Warner Bros.	29.2[6]	132.3[3]	140.8	.27[6]	1.47[3]	1.43	1.00	13¼	7.5	9.0	16¼-11

†—Based on 1950 earnings.
d—Deficit.
1—Year ended June 30, 1950.
5—Year ended October 31, 1950.
6—Quarter ended November 25, 1950.
7—6 months ended Dec. 30, 1950.
4—Pro Forma report for year ended December 31, 1949.
2—28 weeks ended March 15, 1951.
3—Year ended August 31, 1950.

CONVERTIBLES ATTRACTIVE NOW?

By PHILLIP DOBBS

Two primary factors account for a growing interest in convertible preferred stocks: (1) Conviction that stock prices are historically high and therefore vulnerable to a substantial decline and, contrariwise, (2) fear that inflationary forces may spark a long range advance in equities coincident with the depreciation in purchasing power of the dollar. Thus, while conservative investors feel like seeking refuge in securities of higher rank than common stocks, they hesitate to disregard the insistent threat of inflation.

Although other considerations enter into decisions on investment policy, the desire for preservation of capital is paramount. Also of great importance is the stability of income. Accordingly, preferred stocks gained their place in the broad investment scheme to offer a combination of these qualities as well as greater liberality in income than afforded by bonds.

In the 1920's, when common stocks attracted such great popularity, convertible preferreds were introduced to appeal to conservative investors who had been educated to restrict investments only to highest grade securities. This class of securities gained wide acceptance at that time. Again in recent years, revival of inflation fears has induced investors who ordinarily would place their funds in bonds or senior stocks to turn to securities having an "escape clause," as it were.

Conversion terms provide that the senior stock may be exchanged for common at specified ratios—such as two or three shares of common for each share of preferred. Thus preferred issues having prior claim to earnings and having a strong assurance of dividend stability may be counted upon to resist depressing economic influences more effectively than common stocks. In times of business recession, preferred issues tend to stabilize at a level dictated by money and credit conditions. In other words, a good preferred issue reasonably might be expected to sell at aproximately a 4 to 4¼ per cent basis under present conditions and top grade preferreds would command higher ratings—that is, yields as low as 3½ per cent.

Investors feel confident therefore that convertible preferreds issued by strong companies have a dependable "price floor" that may be expected to avert serious losses in event of a depression or sudden market collapse. These stocks appeal to conservative investors seeking a hedge against a possible "bear market" or war scare. On the other hand, if currency depreciation continues to make headway and if common stocks fail to slump merely because they have become "historically high," convertible senior stocks would tend to move forward to take into account the value of the conversion privilege.

Some convertible issues have soared to fantastic heights in reflecting their market worth in terms of common stocks. American Cyanamid "A" preferred may be cited as an example. This issue is entitled to dividends of $3.50 annually, but is convertible into common until July 1, 1957, at $42.50 a share—that is, at about 2.4 shares of common for each share of preferred. Accordingly, it has little appeal for the investor dependent on income with a yield at recent price of less than 1.5 per cent. When convertible preferreds advance to levels at which the return to the investor is below that afforded by bonds, these stocks cease to offer the quality of price stability, for they have taken on the speculative characteristics of the common into which they are exchangeable.

Because common stocks have advanced steadily for almost two years—and especially since last summer's corrective reaction—many preferreds of the type discussed here have advanced to levels at which the conversion feature is operative. Hence, yields are relatively modest. Even so, good quality stocks may be obtained to afford a return of 3½ per cent to 4½ per cent or more and at the same time provide a hedge against inflation.

Factors To Be Watched

Before discussing in some detail representative issues in various industries, it may be well to call attention to factors that need to be watched in selecting such issues for investment portfolios. The most important factor to observe is the redemption price. Many preferred issues are designed to appeal to the conservative investor and eventually persuade him to accept common stock. In short, preferreds often are issued to *compel* eventual conversion. Thus in the case of Armco Steel 4½ per cent convertible preferred, which has been called for redemption June 14 at 103, it is virtually certain that all holders aware

of the call will convert into common on the basis of 2.55 junior shares for each share of preferred.

In this way capital may be raised more easily and as earnings improve, corporations are placed in position to call for redemption outstanding preferreds and force conversion into common. Thus it is important to be on the alert for redemption calls when a preferred stock sells above its redemption price. Under such circumstances, managements feel reasonably safe in issuing redemption notices, for the informed investor would convert his preferred into common rather than accept a lower redemption price.

Conversion Privileges Subject to Change

It is important also to observe whether conversion privileges are subject to change or whether they have specified expiration dates. The new 4½ per cent Celanese Corporation of America Series A preferred discussed in the previous issue of this magazine, for example, is convertible at the rate of one share of common for each $55 of par value of preferred—that is, slightly less than two shares of common for one of preferred—and the privilege expires April 30, 1961. The preferred is redeemable at $105 a share while the conversion privilege is in effect. In some cases, terms provide for gradual reduction of the amount of common into which the preferred may be exchanged. That is, after five years the ratio may drop from two shares of common to one and a half shares.

In this connection, it may be observed that Public Service Electric & Gas Company's preference common, currently convertible into common shares at a ratio of 1.1 shares of common, is in line for a change at the end of June. The ratio then becomes share for share, so that the investor who accepts conversion before June 30 gains a 10 per cent benefit.

Because provisions may have a considerable bearing on prices of preferreds—for example, if the conversion ratio should change—it is important for investors to inform themselves on this feature and be on the alert to guard against losses.

To illustrate more clearly some of the points discussed here it may be well to look at several convertible stocks in detail. A tabulation is presented showing relevant data for a wide assortment of stocks which may have appeal. Reference may be made to this compilation for redemption prices, conversion ratios, etc.

Among attractive preferreds of this type is Allis Chalmers $3.25 convertible issue selling recently at a fair discount from par to give a return of almost 3½ per cent. The stock is convertible into common at the rate of one share for two, so that the premium for the privilege is rather nominal. With conditions promising for the farm equipment industry as well as for electrical equipment, of which this company is one of the large producers, it would seem reasonable to think the common stock may do well for some time to come. Accordingly, any further dividend liberality might be expected to help the preferred.

American Airlines is another company which has fared well in the last year or two. Earnings have improved in response to acquisition of additional economical equipment and in reflecting stimulated air travel incident to the rearmament program. Thus the convertible preferred which had been in disfavor for some time has improved marketwise. This stock is convertible into common at the rate of one share for 4.76 common shares and is redeemable at $103 until June 1, 1956. At recent prices the preferred afforded a yield of almost 4¼ per cent.

Selling On Income Basis

Canada Dry Ginger Ale $4.25 preferred illustrates a case in which the senior stock is selling on its merit as an income producer rather than on its speculative conversion potential. At recent prices, the return of almost 4¼ per cent was about in line with what might be expected if there (*Please turn to page* 218)

Statistical Data on Selected Convertible Preferred Stocks

Issues		Conversion Rate*	Preferred Call Price	Recent Price Preferred	Recent Price Common	Common Stock Net Per Share 1950	Common Stock Net Per Share 1949	1950 Common Div.	Common Div. Yield	Preferred Div. Yield
Allis-Chalmers Mfg.	3¼%	2.0	$103.00	94¾	44⅞	$ 8.72	$ 6.99	$ 3.25	7.2%	3.4%
American Airlines	3½%	4.76	103.00[1]	84¾	16⅜	1.39	.89	.25	1.5	4.1
Armco Steel	4½%	2.55	103.00	114	44⅞	11.66	7.68	4.00	8.8	4.0
Armour & Co.	$6.00 Prior	6.0	115.00	86⅛	11	3.94	(d) .60	.....	.....	5.2[9]
Canada Dry Ginger Aile	$4.25	6.6	102.50	103	13⅛	1.56	1.04	.95	7.1	4.1
Dixie Cup "A"	$2.50	1.0	45.00	68	68	12.18	7.44	3.00[6]	4.4	3.6
Gamble-Skogmo	5%	4.1	52.50	38	8¼	1.51	(d) .23	.60	7.3	6.5
Glidden Co.	4½%	1.4	52.50	58¼	35½	4.11	3.23	2.10	5.9	3.8
Holly Sugar	5%	1.1	30.50	28¼	20⅞	3.75[3]	3.00	1.00	4.8	5.2
Kelsey-Hayes Wheel "A"	$1.50 Partic.	1.0	35.00	31½[2]	28¼	8.89[2]	7.88[2]	3.00[2]	10.6	9.5[8]
Liquid Carbonic	3½%	2.5	102.50	76	21	2.43	1.09	1.25	6.0	4.6
McCrory Stores	3½%	2.5	104.50	101¼	18⅞	4.43	4.05	1.37	7.3	3.4
Mead Corp.	4% 2nd	2.0	56.00	62	25⅝	5.64	3.28	2.20[7]	8.5	3.2
Murray Corp.	4%	2.0	52.00	47	21⅜	11.28	6.95	2.80	13.1	4.2
Oliver Corp.	4½%	3.0	104.00	100	29⅝	7.31	7.19	2.00	6.7	4.5
Peabody Coal	5% Prior	2.5	26.00	23	9⅜	2.70[4]	(d) .15	.60[6]	6.4	5.4
Reynolds Metals	5½%	3.4	107.50	197½	54¼	8.84	4.20	1.70[7]	2.2	2.7
Thermoid Co.	$2.50	3.3	55.00	43½	10⅛	2.26	1.01	.60	5.9	5.7
Worthington Pump	4½% Prior	3.6	100.00	101	27¾	5.70	5.11	2.75	9.9	4.4
York Corp.	4½%	2.7	54.50	47½	16⅜	1.91	1.35	.75[6]	4.6	4.7

(d)—Deficit).
*—Number of common shares into which one share of preferred may be converted.
1—Until June, 1956.
2—Class "B" Stock.
3—Estimated; year ended Mar. 31, 1951.
4—Estimated; year ended April 30, 1951.
5—Variable rate.
6—1951 rate.
7—Plus stock.
8—Includes $1.50 participating dividend.
9—On $6.00 dividend. Paid $3.00 in 1950; with arrears of $7.50 as of Jan. 1, 1951.

FOR PROFIT AND INCOME

Groups

At this writing the best-acting stock groups are chemicals, oils, ethical drugs, automobiles, auto parts, electrical equipment, building materials, paper and tires. Acting worst are the coal group, due to at least temporary overproduction in this industry; and the meat-packer stocks, due to increasing probability of black markets under the Government's price-control mess. Groups not far from earlier 1951 highs include air transport, machinery, metal fabricating, office equipment and finance companies. Groups which have so far been able to rally little from their March or early-April lows include soft drinks, confectionery, gold mining, rail equipment, retail trade, shoes, textiles, motion pictures and tobaccos.

Argument

Taking the risk of "arguing with the market", this column questions the wisdom of those whose buying has imparted recent above-average strength to the auto and auto parts stocks. In few fields are earnings subject to a larger shrinkage from 1950 levels, under the impact of a semi-war economy and the partial shift to arms production. If you doubt it, take a look at the Chrysler first-quarter earnings report. Net was only $1.53 a share, or less than the present $2 quarterly dividend rate, and equalled only 2.13% of sales. It was at barely more than a $6 annual rate, against 1950 earnings of $14.69 a share—and this was under conditions more favorable to profits than will exist during the rest of this year.

Laggards

Scores of stocks are far under their 1945-1946 bull-market highs. Many will do better if (1) an active public speculation develops, and (2) if earnings-dividends in 1951 compare well with, or better, those of 1945-1946. Some "candidates" are Bohn Aluminum, Cluett, Peabody, Continental Motors, Diamond T Motor, Fairbanks, Morse; Schenley, Solar Aircraft, United Air Lines and Walworth.

Profits

Total corporate profits in the first quarter are estimated to have been at an annual rate of $26.7 billion, a new peak and up some 65% from the first 1950 quarter. However, due to some long strikes, results in the first quarter last year were poorer than for any period in even the recession year 1949. But the gain was large, any way you figure it. It was due to a year-to-year rise of about 20% in production and to sharply higher prices. Inventory profits accounted for nearly 20% of the period's total earnings. Any production rise over the rest of the year will be modest and due to rising defense output, which will carry much narrower margins of profit than the civilian business it displaces. If there is any further price rise, it probably will also be small. Wages and some other costs will be higher, so margins will narrow generally on civilian business, as well as arms work. Finally, taxes will be higher. So it remains a pretty good bet that full-year earnings will be down from 1950, with the

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1951	1950
Lehn & Fink Prod. Corp.	9 months Mar. 31	$1.98	$ .94
Stewart-Warner Corp.	Mar. 31 Quar.	.89	.55
Textron, Inc.	Mar. 31 Quar.	1.26	.50
Weston Electrical Instrument	Mar. 31 Quar.	1.05	.44
Allied Chemical & Dye	Mar. 31 Quar.	1.25	.95
Climax Molybdenum	Mar. 31 Quar.	.86	.21
Georgia-Pacific Plywood Co.	Mar. 31 Quar.	1.43	.53
Joy Mfg. Co.	Mar. 31 Quar.	1.73	.66
Pittsburgh Plate Glass	Mar. 31 Quar.	1.19	.88
Plymouth Oil Co.	Mar. 31 Quar.	2.06	1.16

quarterly rate well down by the fourth period. And it is a certainty that results of individual companies, already mixed, will be more so as the year proceeds.

Taxes

You may be misled by interim earnings reports unless you figure out what tax rates have been applied by noting the ratio of pre-tax earnings to the deduction for taxes. Some companies are deducting for taxes at present rates. Some are allowing already for higher future taxes, even though the latter are likely to be effective only for the second half; and some of these are additionally allowing for renegotiation of Government contracts. In such instances, first-quarter earnings possibly—indeed, probably—have been understated. An outstanding example is Rohm & Haas, a sizable and growing chemical manufacturer, dominated by the controlling stock interest of the Haas family. This stock, publicly listed only since 1949, has risen from a 1949 low of 26 to a recent high of 130¾. Earnings last year were a record $8.91 a share, with taxes applied at about 52%. In the first quarter of this year the company deducted nearly 71% for "taxes and renegotiation", although the present maximum tax rate is 62%. Even so, stated net rose to $2.35 a share, an annual rate of $9.40, from $2.06 in the first quarter of 1950. That sort of accounting is one reason for recent "big-money" demand for the stock. The general public is not keen about stocks selling well over $100 a share.

Dividends

When an interim dividend payment is increased, corporations almost never describe it as a "regular quarterly rate". That puts it up to analysts, like the writer of this column, to infer whether it is an "indicated new rate". There have been a good many boosts in indicated rates so far this year. In combination with the greater number made in the late months of last year, this will tend to swell total 1951 payments. But the probable combination of fewer and smaller year-end extras will work the other way. In a good many cases, present interim rates, projected for the full year, merely equal 1950 payments, inclusive of year-end extras. For example, Phelps Dodge recently voted a $1.25 quarterly, against $1 previously, suggesting a $5 annual rate; but it paid $4 regular last year, plus a $1 year-end extra, or a total of $5. Maybe there will be a year-end extra this year, maybe not. As things look now, this column doubts that total corporate dividends this year will differ more than slightly from the 1950 level. It is a toss-up whether they will be higher by something like 2%-3%; or down by something like 3%-5%.

Popular

In the common stock portion of their portfolios, leading endowment funds stick to the beaten path, confining themselves to "Big Name" stocks. A survey of holdings of Harvard University, Yale, Columbia University, Princeton, Cornell, Dartmouth, Smith College, Carnegie Corporation, the Markle Fund and Rockefeller Foundation shows the largest over-all representation in the following issues: Standard Oil (New Jersey), General Electric, Union Carbide, Sears, Roebuck; Standard Oil of Indiana, duPont, International Harvester, Westinghouse Electric, Socony-Vacuum, Shell Oil, Eastman Kodak, Gulf Oil, Standard Oil of California, Kennecott Copper, International Nickel, General Motors and Monsanto Chemical. However, the individual funds differ considerably in their selective leanings. Some exclude some of the stocks cited. All hold some stocks not in this list of most popular issues.

Preference

Stocks currently making new highs, or lows, run the gamut in quality and in terms of industrial classification. However, in the upswing from the March reaction low, there has been a very considerable investment concentration on oils, chemicals and ethical drug stocks. Much of this buying has been institutional: management trusts, open-end trusts, insurance companies, pension funds, etc. The indicated preference, which is certainly sound in principle, is for companies with superior peace-or-war prospects, with long-term growth tendencies, and with recession-resistant characteristics. Of course, an increasing premium has to be paid for these attributes. Current yields of some of the most popular chemical and drug stocks have approached the level of high-grade bond yields. However, even at record prices, many good oils still yield around 5% to 6% on probable 1951 dividends.

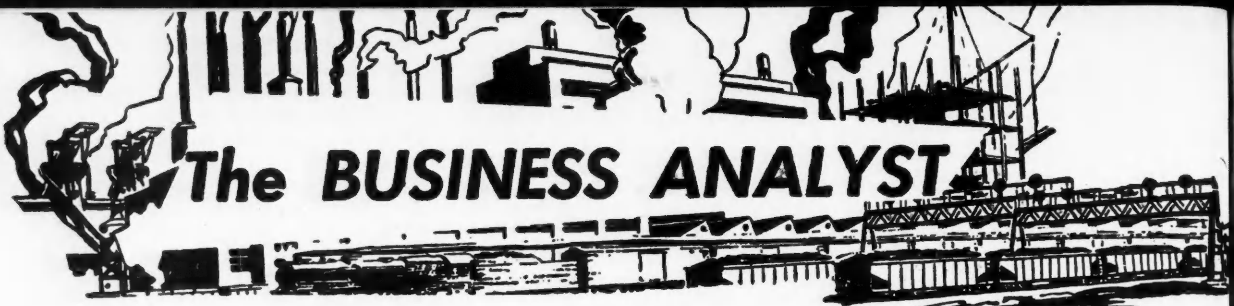
Oils

The domestic oil industry's sky appears to be cloudless for the foreseeable future. The demand is there, and growing appreciably from year to year. Labor costs are fairly low in ratio to sales. Prices and operating margins are favorable. The tax position is more sheltered than that of any other major industry. Finances are generally strong. And the basic asset—crude oil reserves in the ground—tends to enhance in long-term money value. Of course, "accidents" can occasionally happen—such as the generally mild winter of 1948-1949, which resulted in inventory unbalance, temporary over-production and narrowed margins. Thus, earnings of 20 representative oil companies fell about 43% from 1948 to 1949, against a comparable shrinkage of 19% for total corporate profits. However, another such "accident" is not predictable. Unless and until it comes along, oils will no doubt meet investment support on all minor dips; but, on the other hand, it is conservative to reason that potentials for fur-

(*Continued on page* 220)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

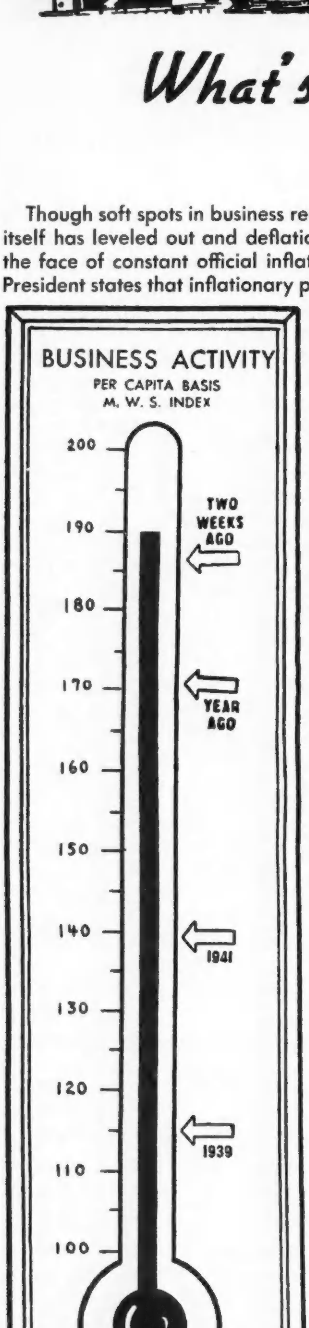
		1951	1950
Best Foods, Inc.	Mar. 31 Quar.	$1.08	$1.23
Boeing Airplane Co.	Mar. 31 Quar.	1.03	1.28
American Metal Products	Mar. 31 Quar.	1.07	1.11
Bon Ami Co. "A"	Mar. 3 Quar.	.84	1.00
C. I. T. Financial Corp.	Mar. 31 Quar.	1.84	2.12
National Gypsum Co.	Mar. 31 Quar.	.88	.92
United States Lines Co.	Mar. 31 Quar.	.19	.33
U. S. Steel	Mar. 31 Quar.	1.62	1.64
Studebaker Corp.	Mar. 31 Quar.	2.09	2.93
Freeport Sulphur	Mar. 31 Quar.	1.62	1.88



What's Ahead for Business?

By E. K. A.

Though soft spots in business remain relatively few, the boom itself has leveled out and deflationary signs are multiplying in the face of constant official inflation warnings. Thus when the President states that inflationary pressures have not yet reached their peak, it is taken with a grain of salt by many business observers who suspect an effort to pressure Congress rather than the certainty of anything like an early revival of strong inflationary pressures.



Many doubt whether even six months hence the rise in arms production will severely crimp civilian supplies. In many lines, heavy inventories will almost certainly cushion the shock of civilian cutbacks. While in view of the defense program, the general outlook is tinged with inflationary possibilities, outweighing this for the time being at least are such factors as tighter credit, lagging consumer demand, heavy stocks at virtually all levels, the declining housing boom, etc.

Reflecting the situation is the concensus among sales executives that selling has become definitely tougher. Similarly, purchasing agents reporting on April business record the second month of sharp declines in new orders, with 33% of members canvassed reporting a falling off in order backlogs. "Defense orders have increased appreciably," says the report of the National Association of Purchasing Agents, "but they do not compensate for the slack in civilian business." And the latest Commerce Department compilation of business inventories shows a $1.7 billion increase in March over February, to a total March-end figure of $66.2 billion—a new high. Manufacturers' inventories rose $900 million, while retailers' and wholesalers' stocks gained $600 million and $200 million respectively. About three-fifths of these gains represent increased prices.

On the price front, prices are leveling off with some scattered declines reported, evidently due to liquidation of overstocks. Commodity futures prices are again showing weakness. Many industrial consumers are not buying as far ahead as usual; caution and restraint is the watchword.

All this should not be interpreted as portending anything like a "bust," far from it. But the lull in business, the "breathing spell" in inflation is at hand and it will have to run its course.

In some lines of consumers' goods, the evidence is clear that markets are saturated, merchants overstocked and overcommitted, and that business has been borrowed from the future. The attitude of buyers both at retail and wholesale has changed. Instead of thinking of shortages and inflated demand, people have begun to think also of the immense productive power of industry. This is not only reflected in television and appliances, and in soft goods lines, but even in autos and other consumer hard goods once on the scarce list. In textile lines, particularly, price ceilings have no longer any practical meaning; many sell below.

Total Output Should Hold Fairly Steady

Nevertheless, the overall course of business is pretty well fixed as arms business is gradually expanding. Total production will probably hold fairly steady despite the soft spots cited, with a new rise indicated in the latter part of the year. Whether that will be accompanied by new inflationary pressures remains a disputed point. If, quite apart from controls and restrictions, there will be areas where businessmen will have to fight for markets as some observers anticipate, the inflation argument would seem to lose a good deal of substance.

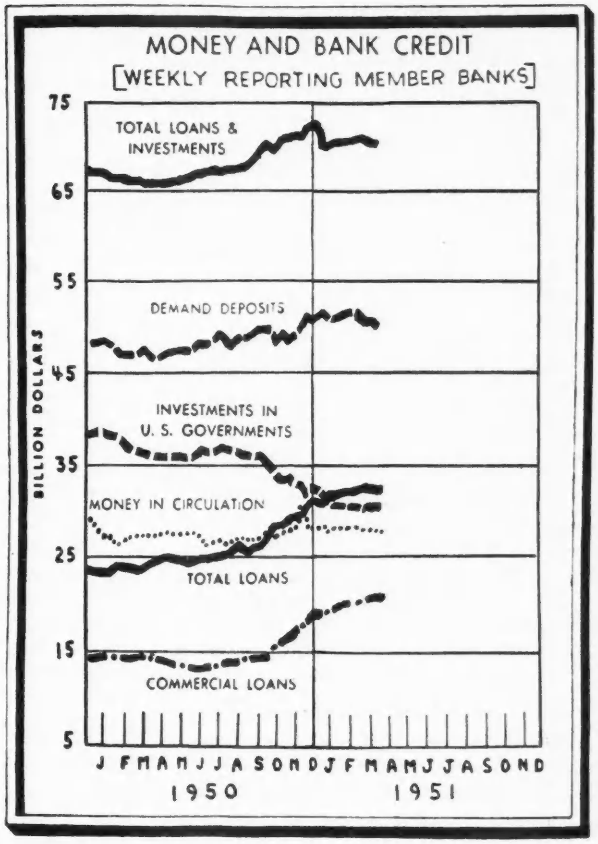
Much of course will depend on the trend of international developments. Should the Korean war widen or should total war threaten, all bets are off. In that event the defense program would be speeded up, restrictions would be tightened, and more likely than not, there would be a resurgence of precautionary buying. But if not, then there would be little ground for revival of the consumer buying wave touched off last June.

Meanwhile the trend of retail trade suggests continuation of the digestive pause noticeable for some time. Scattered signs that the let-down of the past few months may be ending are far from conclusive and retailers generally show little cheer. Improvement, where it has occurred, must be chalked up to aggressive retail promotions of merchandise at especially attractive prices. Though apparel items are moving a little better, mainly on seasonal grounds, demand for hard goods shows little or no betterment.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—Government bonds have been sluggish since the lows were established on April 19. For example the restricted 2½'s of 1967-72 which had fallen to 97.4 bid, at that time, could not hold their recovery of ¾ of a point and by early May were back to their lows again, where some Federal Reserve buying support appeared. On balance the Reserve banks have not been buyers of late, their total holdings of government securities at $22.7 billion comparing to $23.09 billion two weeks earlier. The program of voluntary credit restraint is being pushed in earnest and commercial loans of member banks at $19.13 billion are about the same as a month earlier, although up $5.65 billion from a year ago. The peak for these loans was reached on April 11 at $19.27 billion. Meanwhile the Federal Reserve Board is hoping to supplement the voluntary control program with additional legal powers. President Truman in his economic message told Congress he would recommend that the Board be given authority to impose additional reserve requirements on member banks. One method currently favored for more effective control of bank lending would require that any bank that increases its loans above those outstanding as of a date fixed by the FRB, would have to set aside additional reserves against such loans. In order to make its powers more pervasive, the FRB is hoping that any additional controls will be extended to apply to non-member banks as well. Last year's crack-down on consumer credit continues to restrict borrowing by individuals. These credits fell by $161 million in March, a month when a rise may usually be expected. Since the peak of $20,098 million in December of last year, total consumer credit outstanding has fallen by $723 million, but is still $3,087 million above the figure of a year ago.



TRADE—After glancing at their bulging shelves, alert merchants turned to aggressive retail sales promotions in April at attractive prices. For the week ended April 28, nation-wide department store sales were up 3% from the year ago figure. With retail prices on average some 12% higher during that period, actual physical volume of sales continues to make a poor comparison with last year. That retailers still have a big selling job ahead of them may be deduced from the figures on department store inventories which in March were 22% over a year ago. The last week in April showed some improvement in consumer demand for apparel but hard goods items continued in the doldrums.

INDUSTRY—The Federal Reserve Board estimated that in April industrial production held at the peacetime peak reached in March, up 20% from a year earlier. The month's activities were featured by marked expansion of production of defense products which offset declines in consumer items including automobiles and household appliances. That the level of industrial production does not reveal the whole story of business conditions may be gleaned from a study by the National Industrial Conference Board which indicates that there are some dark aspects to the business outlook, including the high level of consumer stocks and debt, the large investments in inventory and the enormous output of the housing and durable goods industries satiating demand. However they conclude that the scope of the re-armament program should bar any serious declines.

COMMODITIES—Signs that inventory pipe lines are well stocked were seen in the action of commodities in the past two weeks. The effect of the abortive Communist offensive in Korea was short-lived and our weekly index of spot prices continued to decline slowly, reaching a new low for the year on May 5.

NEW ORDERS slumped in April for the second consecutive month and production fell less abruptly, with the result that industry's order backlogs were reduced, according to a survey by the National Association of Purchasing Agents. The Association found another significant development in the fact that defense orders, while increasing appreciably, did not compensate for the slack in new civilian business.

* * *

The nation's total **MONEY** *(Please turn to following page)*

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	April	2.16	2.10	1.04	1.55
Cumulative from mid-1940	April	414.0	411.8	375.1	13.8
FEDERAL GROSS DEBT—$b	May 3	254.0	254.6	255.7	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Apr. 25	50.2	49.9	47.1	26.1
Currency in Circulation	May 2	27.3	27.1	27.1	10.7
BANK DEBITS					
New York City—$b	Apr. 25	10.6	11.1	9.1	4.26
93 Other Centers—$b	Apr. 25	15.2	16.5	12.9	7.60
PERSONAL INCOMES—$b (cd2)	Feb.	241	241	215	102
Salaries and Wages	Feb.	159	157	132	66
Proprietors' Incomes	Feb.	48	49	44	23
Interest and Dividends	Feb.	19	19	17	10
Transfer Payments	Feb.	12	12	18	3
(INCOME FROM AGRICULTURE)	Feb.	19	20	18	10
POPULATION—m (e) (cb)	March	153.3	153.1	150.8	133.8
Non-Institutional, Age 14 & Over	March	108.9	109.2	109.0	101.8
Civilian Labor Force	March	62.3	61.3	61.6	55.6
unemployed	March	2.1	2.4	4.1	3.8
Employed	March	60.1	58.9	57.6	51.8
In Agriculture	March	6.4	5.9	6.2	8.0
Non-Farm	March	53.8	53.0	50.8	43.8
At Work	March	57.5	56.5	54.7	43.2
Weekly Hours	March	41.3	41.0	39.7	42.0
Man-Hours Weekly—b	March	2.12	2.10	2.01	1.82
EMPLOYEES, Non-Farm—m (lb)	Mar.	45.8	45.4	42.3	37.5
Government	Mar.	6.2	6.1	5.8	4.8
Factory	Mar.	13.2	13.1	11.6	11.7
Weekly Hours	Mar.	41.1	41.0	39.7	40.4
Hourly Wage (cents)	Mar.	156.6	156.3	142.5	77.3
Weekly Wage ($)	Mar.	64.36	64.08	56.57	21.33
PRICES—Wholesale (lb2)	May 1	183.4	183.6	154.7	92.5
Retail (cd)	Feb.	205.3	202.4	183.3	116.2
COST OF LIVING (lb3)**	Mar. 15	184.5	183.8	167.0	100.2
Food	Mar. 15	226.2	226.0	196.0	113.1
Clothing	Mar. 15	203.1	202.0	185.0	113.8
Rent	Mar. 15	134.7	134.0	122.9	107.8
RETAIL TRADE—$b**					
Retail Store Sales (cd)	Mar.	12.4	13.0	11.1	4.7
Durable Goods	Mar.	4.3	4.7	3.7	1.1
Non-Durable Goods	Mar.	8.1	8.3	7.4	3.6
Dep't Store Sales (mrb)	Apr.	0.87	0.81	0.83	0.39
Retail Sales Credit, End Mo. (rb2)	Mar.	11.3	11.5	9.5	5.5
MANUFACTURERS'					
New Orders—$b (cd) Total	Mar.	29.3	25.5	18.8	14.6
Durable Goods	Apr.	16.3	13.2	8.5	7.1
Non-Durable Goods	Mar.	13.0	12.3	10.3	7.5
Shipments—$b (cd)—Total	Mar.	24.4	21.8	18.5	8.3
Durable Goods	Mar.	11.5	9.9	8.1	4.1
Non-Durable Goods	Mar.	12.9	11.9	10.5	4.2
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Mar.	66.2	64.5	52.5	28.6
Manufacturers'	Mar.	36.4	35.5	29.2	16.4
Wholesalers'	Mar.	11.4	11.2	9.1	4.1
Retailers'	Mar.	18.4	17.8	14.3	8.1
Dept. Store Stocks (mrb)	Mar.	2.9	2.6	2.3	1.4
BUSINESS ACTIVITY—1—pc	Apr. 28	190.3	189.4	170.8	141.8
(M. W. S.)—1—np	Apr. 28	222.1	220.9	199.4	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 207)

SUPPLY as measured by bank deposits and currency in circulation, had fallen by $4.7 billion at the end of March from its December 1950 peak of $177.2 billion. Previously there had been a $7.5 billion increase from June 28, 1950, to the end of December. Potent factor in the drop has been the drain on demand deposits in order to pay Federal taxes, while last year's rise was spurred by the expansion of bank loans from $52 billion on June 30, 1950, to $61.0 billion at the end of December. Loans continued to rise through March when they stood at $62.5 billion.

* * *

Prices of farm lands reached the highest level in U. S. history in March. The general average of **FARM REAL ESTATE** increased 14% over a year ago and was 9% higher than the previous peak of November 1948. Increasing farm product prices and a demand for land as an inflation hedge were seen as the major causes of the boom.

* * *

NEW STOCK ISSUES in April totalled $65 million, a sharp drop from the $123 million of a month earlier and also below the year ago figure of $77 million. On the other hand, **NEW BOND OFFERINGS** had expanded to $317 million in April against only $248 million the year before.

* * *

New York State has just authorized **LIFE INSURANCE COMPANIES** to invest in common stocks, up to 3% of their assets or one-third of surplus, whichever is less, making available some $600 million for the purchase of equities. This, together with previous authorization to legal trust funds, furnishes new institutional markets for equities to supplement those long provided by fire and casualty companies, as well as investment trusts and trustees. Demand from these sources is expected to be concentrated in issues of blue-chip calibre.

* * *

The National Production Authority has indicated that it will put brakes on zooming **PLANT EXPANSION PROGRAMS** in order to avoid a serious squeeze on civilian production later in the year. The first step in this direction occurred when the Government abruptly halted the grant of any further approvals for rapid amortization of petroleum refining facilities. Decision to slow down industry expansion plans was taken to prevent a disastrous squeeze on civilian production for lack of materials.

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	Mar.	222	221	187	174
Mining	Mar.	158	158	144	133
Durable Goods Mfr.	Mar.	276	272	211	220
Non-Durable Goods Mfr.	Mar.	200	201	181	151
CARLOADINGS—t—Total	April 28	825	810	745	833
Misc. Freight	April 28	398	395	371	379
Mdse. L. C. L.	April 28	80	80	85	156
Grain	April 28	50	50	44	43
ELEC. POWER Output (Kw.H.) m	April 28	6,674	6,730	5,902	3,267
SOFT COAL, Prod. (st) m	April 28	10.4	10.6	11.3	10.8
Cumulative from Jan. 1	April 28	176.5	164.7	143.5	44.6
Stocks, End Mo.	Mar.	71.4	70.7	28.1	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	April 28	6.2	6.1	5.0	4.1
Gasoline Stocks	April 28	137	139	129	86
Fuel Oil Stocks	April 28	36	36	39	94
Heating Oil Stocks	April 28	44	43	37	55
LUMBER, Prod.—(bd. ft.) m	April 28	620	625	605	632
Stocks, End Mo. (bd. ft.) b	Mar.	6.3	6.4	6.3	12.6
STEEL INGOT PROD. (st) m	Mar.	9.05	7.76	7.49	6.96
Cumulative from Jan. 1	Mar.	25.66	16.60	22.22	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	May 3	271	285	251	94
Cumulative from Jan. 1	May 3	5,268	4,998	3,731	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	April 28	202	226	200	165
Cigarettes, Domestic Sales—b	Mar.	30	29	32	17
Do., Cigars—m	Mar.	455	435	453	543
Do., Manufactured Tobacco (lbs)m	Mar.	18	18	22	28

PRESENT POSITION AND OUTLOOK

INVESTMENT in **NEW PLANT** and **EQUIPMENT** by all U. S. corporations totalled $16.8 billion in 1950 according to an estimate of the Securities and Exchange Commission. In addition they increased their **NET WORKING CAPITAL** by $5.7 billion over 1949. To finance this combined total of $22.5 billion in expansion, corporations secured about $3.7 billion from the sale of stocks and bonds while internal sources—depreciation accruals and undistributed profits—provided the remaining $18.8 billion. While Current Assets rose by $21.9 billion to a record $150.5 billion, current liabilities mounted to $74.7 billion. The ratio of current assets to current liabilities at 2.01 was somewhat below 1949's ratio of 2.20.

* * *

SHOE PRODUCTION in the first quarter of this year is estimated at 132,211,000 pairs, a gain of 2.6% over last year's 128,858,000, according to the Tanners Council of America. The increase was concentrated in the output of men's shoes which rose 16.1% as a result of the stepped-up demand for military requirements. The Council estimates April shoe production at 40,000,000 pairs, or 5% above the figures of a year ago. The April estimate raises the four-month total to 172,211,000 pairs, which compares with 166,916,000 pairs in the first four months of 1950, an increase of 3.2%.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated, en—Engineering News-Record. l—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935—100). lt—Long tons. m—Millions. mpt—At mills, publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment sale credit and charge accounts. st—Short tons. t—Thousands. *—1941; November, or week ended December 6. **—New Adjusted Series.

THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

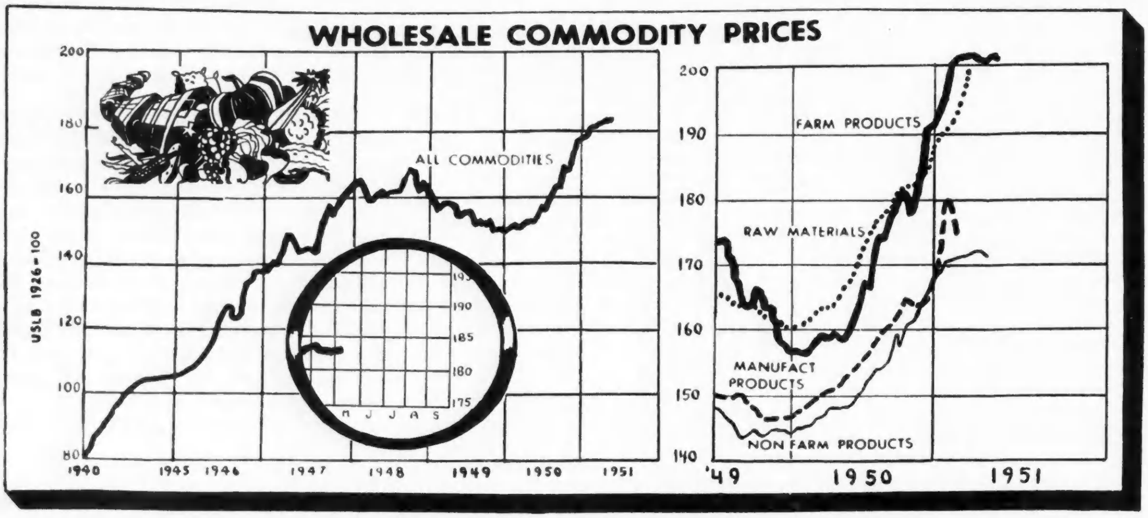
No. of Issues (1925 Close—100)	1951 Indexes High	Low	Apr. 28	May 5
334 COMBINED AVERAGE	196.8	182.0	192.0	192.1
4 Agricultural Implements	292.7	252.9	273.6	276.1
10 Aircraft ('27 Cl.—100)	333.0	286.7	308.3	308.3
7 Air Lines ('34 Cl.—100)	764.7	648.4	764.7	738.6
8 Amusement	101.4	90.8	93.8	92.9
10 Automobile Accessories	257.6	240.3	255.3	257.6
11 Automobiles	46.3	42.0	44.7	43.8
3 Baking ('26 Cl.—100)	23.2	21.1	22.4	22.2
3 Business Machines	A369.1	300.8	360.3	369.1
2 Bus Lines ('26 Cl.—100)	183.1	160.8	160.8	162.5
6 Chemicals	A388.7	326.0	382.1	388.7
3 Coal Mining	18.3	14.2Z	14.7	14.2
4 Communication	72.5	63.2	66.9	66.3
9 Construction	69.5	60.2	68.9	68.3
7 Containers	A428.8	376.5	425.2	428.8
9 Copper & Brass	147.1	132.8	141.9	145.8
2 Dairy Products	83.4	77.5	78.3	77.5
5 Department Stores	84.5	71.8	73.2	73.2
6 Drugs & Toilet Articles	235.0	213.8	232.7	228.4
2 Finance Companies	293.4	243.0	288.5	288.5
7 Food Brands	200.9	185.9	191.4	191.4
2 Food Stores	118.4	110.6	111.7	116.2
3 Furnishings	75.0	69.4	73.6	72.3
4 Gold Mining	724.1	613.8	635.0	629.4

(Nov. 14, 1936, Cl.—100)	High	Low	Apr. 28	May 5
100 HIGH PRICED STOCKS	117.0	108.8	115.53	116.71
100 LOW PRICED STOCKS	245.8	226.5	237.33	235.46
5 Investment Trusts	A91.4	84.8	90.6	91.4
3 Liquor ('27 Cl.—100)	1202.0	1078.1	1146.9	1135.4
11 Machinery	206.4	191.1	200.7	202.6
3 Mail Order	152.0	133.3	138.6	140.0
3 Meat Packing	109.1	96.1	96.1	96.1
13 Metals, Miscellaneous	280.9	245.4	265.3	267.7
4 Paper	A386.6	344.3	379.9	386.6
29 Petroleum	397.6	355.0	397.6	397.6
30 Public Utilities	152.8	142.5	148.6	148.6
9 Radio & TV ('27 Cl.—100)	31.4	26.6	28.6	28.6
8 Railroad Equipment	73.8	64.3	68.4	69.1
24 Railroads	45.4	39.3	42.0	42.0
3 Realty	41.0	37.8Z	38.2	37.8
3 Shipbuilding	181.0	154.2	165.9	162.6
3 Soft Drinks	395.5	343.6	360.8	367.5
15 Steel & Iron	169.5	147.4	160.7	159.2
3 Sugar	75.4	66.5	73.9	73.2
2 Sulphur	473.1	425.3	473.1	468.7
5 Textiles	223.6	195.4	203.4	205.4
3 Tires & Rubber	A61.6	51.2	58.2	61.6
6 Tobacco	86.1	80.9	80.9	82.6
2 Variety Stores	320.7	308.7	316.4	319.5
20 Unclassified ('49 Cl.—100)	127.3	119.7	125.4	125.4

A—New high for 1951. Z—New low for 1951

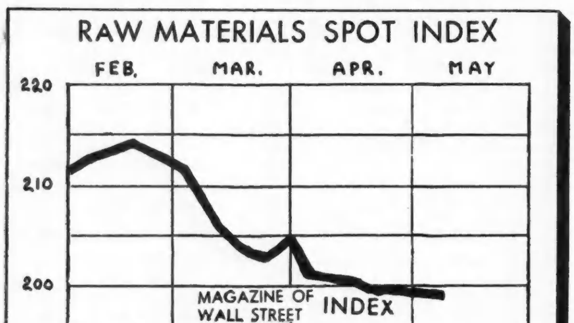
Trend of Commodities

Resistance to price rises was evident in the commodity markets this past fortnight and many staples ended the period at lower levels. Even crop scares were insufficient to arrest this declining tendency. Thus the September wheat which had sold as high as 254⅜ on April 24, closed at 248 on May 7, in spite of news of continued deterioration in the condition of winter wheat with experts forecasting the smallest crop since 1943. New crop cotton (October) was also easy, closing at 39.30 compared to its April high of 40.38. Prospects for the cotton crop appeared improved, with production of about 16 million bales expected, compared to only 10 million last year. However, with the carry-over on July 31, 1951, expected to be only some 2 million bales as against 6.8 million bales a year earlier, the total supply would be only moderately above last season's. The outstanding exception to easier tendencies was seen in the sugar market, with domestic raws closing at 5.75 cents on May 7, up from 5.35 cents on April 20. The price rise was led by the world sugar market which reflected strong foreign demand. The OPS found itself embroiled in a fight to the finish resulting from its attempt to roll back the price of meat. On April 29, Stabilizer Di Salle announced tough regulations on beef prices; an immediate rollback of 10% in the prices packers can pay for livestock—which should restore packers' profit margins—to be followed by cuts of 4½% each on August 1 and October 1 of which the consumer should be the main beneficiary. The regulations covering some 25,000 packers, slaughterers and wholesalers plus 300,000 retailers, are expected to reduce the meat bill to consumers by some $700 million annually. However, ranchers and finishers of livestock who will be hardest hit by the new regulations, protest.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

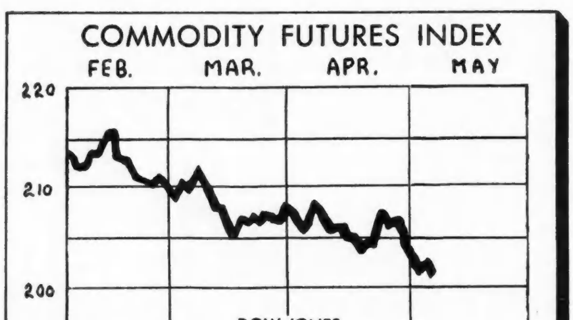
	Date May 8	2 Wks. Ago	3 Mos. Ago	1 Year Ago	Dec. 6 1941
28 Basic Commodities	371.1	373.3	389.9	256.4	156.9
11 Imported Commodities	408.1	408.1	433.1	257.5	157.3
17 Domestic Commodities	349.0	353.3	364.3	255.7	156.6
7 Domestic Agriculture	403.1	408.2	415.3	322.1	163.9
12 Foodstuffs	394.5	395.4	403.1	330.4	169.2
16 Raw Industrials	358.0	361.0	380.1	224.0	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1951	1950	1947	1945	1941	1939	1938	1937
High	214.5	304.7	164.0	95.8	74.3	78.3	65.8	93.8
Low	199.0	134.2	126.4	93.6	58.7	61.6	57.5	64.7



Average 1924-26 equals 100

	1951	1950	1947	1945	1941	1939	1938	1937
High	215.4	202.8	184.4	111:7	88.9	67.9	57.7	86.6
Low	201.0	140.8	123.0	98.6	58.2	48.9	47.3	54.6

Keeping Abreast of Industrial and Company News

According to the **American Iron & Steel Institute,** the largest amount of steel ever made in a week was produced in the week ended May 6, 1951. Steel making furnaces operating at an average of 104% of January 1 capacity poured better than 2.07 million net tons of ingots and steel for castings in the period cited. This was the ninth consecutive week of production exceeding two million tons, as the industry intensified its activities for the defense program.

Another production record has been established by the Port Neches plant of the **B. F. Goodrich Chemical Company** for the Government. On April 27, this facility turned out its billionth pound of American rubber since operations began in 1943. While most government-owned rubber plants were placed in mothballs after VJ Day, Port Neches continued with limited production and later was partially converted to the manufacture of cold rubber, which now accounts for about 75% of output. This plant is presently operating in excess of 135% of its rated 60,000 long tons a year capacity.

Formation of a Canadian subsidiary and acquisition of a financial interest in major new fine chemical plant at Cornwall, Ontario, has been announced by **Charles Pfizer & Company.** Donald Hilton, director of foreign sales for the parent concern, is president of Pfizer Canada, Ltd. A British-controlled Canadian firm, Kemball Bishop, will erect the new plant at Cornwall, the site for which was acquired with Pfizer as a participant. No immediate, direct use of the new facility is planned by the Pfizer company, though.

Customer long distance dialing, whereby a telephone subscriber with ten pulls of the dial can reach another subscriber in a distant city, will see its first public use in 1951. This project is one of the most significant ever taken by Bell Telephone Laboratories, research and development unit of the Bell System. Initial trial of the new, extended facilities will enable subscribers of the **New Jersey Bell Telephone Company** in Englewood, N. J. to call 13 widely scattered areas by direct use of the dial. Among some of the cities and their suburbs to be so reached, are Philadelphia, Boston, Pittsburgh, Cleveland, Chicago, San Francisco and two other California cities where installations are particularly suitable for the trial. Three new numbers on the dial are used to route the call to the proper geographical area, followed by the usual numbers. Within a matter of seconds, the distant telephone will ring. For several years past, long distance operators have used a dial system, but this will mark the first time for subscribers.

Allis Chalmers Manufacturing Company has been awarded the largest subcontract yet signed in the Curtis-Wright Corporation's vast defense program—a multi million dollar order to make Wright J65 Sapphire turbo jet engine compressors. In order to produce effectively, Allis-Chalmers has agreed to build a new $5 million plant, and for this purpose has purchased 200 acres of land at Terre Haute, Indiana. The employment roll here eventually may rise to 4,000 persons. During World War II, the company shipped 16 million horsepower of turbo superchargers for military aircraft.

An interesting agreement has been executed between **American Cyanamid Company** and Clinchfield Coal Corporation, providing for the purchase by Cyanamid of a plant site with a long term lease of coal reserves in Southwest Virginia. The future development of these properties for the manufacture of chemicals, utilizing coal to be furnished by Clinchfield is under consideration by American Cyanamid.

Yale & Towne Manufacturing Company has announced receipt of the largest single order for gas industrial trucks in the firm's 82 year history. The Navy's purchasing office has placed an order calling for 940 Yale gas fluid drive industrial trucks. Since last June, production at the Philadelphia division of the company that makes these trucks and hoists has more than doubled. Present distribution of Yale materials handling equipment is 35% to the Armed Forces and other Federal agencies, 50% to defense supporting industries and 15% to other civilian users. The target of the Philadelphia division is to again double production within the next year. New and more efficient production methods have cut the time for shipping backlog orders to about 4½ months from a former 9 months, so there is a chance of reaching the new goal if manpower and material problems do not prevent.

An all-time high record in the amount of new locomotive power on order by Class 1 railroads was established on April 1, 1951, the **Association of American Railroads** has announced. On that date, the carriers had 1883 locomotives on order, consisting of 2420 power units. In terms of complete locomotives awaiting delivery were twenty steam, four electric and 1859 diesel-electric locomotives. The latter often consist of a series of units coupled together. The previous high record of locomotive power on record was back in 1923, when the number waiting delivery, mainly steam, was 2113, but the average tractive effort of the haulers today is about 65% greater than then.

Several of the divisions of **ATF Incorporated** ar importantly engaged in military production, or soo will be. The entire output of Daystrom Electric Cor

poration, a subsidiary making sound recording equipment, is being taken by the Armed forces, and an ATF plant at Elizabeth, N. J. has been turned over to the manufacture of 76 millimeter guns for tanks. Now Daystrom, Inc. has received a substantial order to build U. S. Navy fire control equipment, and accordingly will erect a new $4 million facility in Scranton, Pa. to carry out the contract. Work on construction will commence at once.

The recent decision of the **Prudential Insurance Company of America** to build a $35 million skyscraper in Chicago highlights the dynamic growth of this midwest metropolis and the area it serves. The city has doubled its industrial output to $10 billion annually within seven years time. Industrial expansion last year in the Chicago area was the largest ever recorded, with new plants and additions involving outlays of more than $293 million dollars. Prudential considers the Chicago area as one of the best balanced and most promising economic areas in the world, as the result of several years of intensive research.

A new 55 gallon synthetic rubber-fabric drum, suitable for shipping liquids and collapsible after use, has been developed by **United States Rubber Company.** Limited quantities of this reusable shipping container are already produced for essential uses in the petroleum and chemical industries. Such items as fats, acids, greases, paints, emulsions, soaps, dry powders and a variety of chemicals and oil products can be readily transported in these drums. Since more than 2500 of them can be returned when collapsed in a standard railroad box car that would hold only 300 rigid drums, sizable savings in transportation costs can be effected. An empty 55 gallon rubber-fabric drum weighs less than 30 pounds, and when full retains its shape without appreciable distortion, and approximates the size of a regular barrel or drum.

The sun never sets on the activities of about 2000 electronics field engineers of **Philco Corporation** serving with the Armed Forces in all parts of the world. So extensive is this field engineering operation that Philco has a special TechRep (technical representative) Division. This group has provided the Armed Forces with more electronics and communication specialists than any other manufacturer. The men are intensively trained by Philco and can plan, install and maintain the widest variety of electronics equipment, and are well qualified to instruct both military and civilian technical personnel.

Several years ago the **Socony-Vacuum Oil Company** instituted a program to promote graduate studies of science in various colleges and universities throughout the country, through awards of fellowships. Such good results have been attained that during the 1951-52 academic year the company will support 20 fellowships at a total cost of $40,000. Recipients are selected by the educational institution from among students with at least one year of graduate work, and with no strings as to future employment. Similarly, freedom is given to study subjects other than ones connected with the petroleum industry.

Heavy military demand has induced the **Fairchild Engine and Airplane Corporation** to build its fourth plant on Long Island, this time at Bay Shore. The facility will contain about 125,000 feet of floor space and will cost $2 million. The plant will be located on a 24 acre site and should be occupied by the Stratos Division by next November. This division makes a series of air cycle refrigeration packages for use in gas turbine powered aircraft.

Emerson Radio & Television Corporation has stirred the industry it represents by announcing a reduction in list prices of from $15 to $115 on its entire 1951 television line. This company took the lead last year with a similar price cut, and the special quotations now are the lowest in company history. The new prices, though, are limited to no longer than a sixty day period because of prospective material shortages and other disadvantages that may raise costs. In the main, the program is designed to stimulate purchases by persons who have found heavy down-payments under Regulation W a deterrent in the acquisition of television sets.

At Portland, Oregon, the electro-metallurgical division of **Union Carbide & Carbon Corporation** is undertaking a major expansion program estimated to cost several million dollars. The productive capacity of this unit will be approximately doubled to increase output of ferro silicon and calcium carbide. The parent company spent almost $70 million in plant improvements last year, and during 1951 will spend even more if enough materials are available.

Government promotion of crop production has stimulated demand for fertilizers in a striking manner in recent years. The **fertilizer industry** in 1951 will likely face expanding demand for the twelvth consecutive year. Consumption in 1950 exceeded 16 million tons compared with less than 8 million tons in 1939 and has increased steadily in every period. Farmers could hardly afford not to buy fertilizer in recent years, and the price of commercial material has risen much less proportionately than those of all other commodities used in farm production. While shortage of sulphur this year may restrict the supply of superphosphates, there should be plenty of rock phosphates and nitrates.

International Harvester Company has arranged a $75 million V-loan with a group of nine banks to finance its large military contracts, according to an announcement by William R. Odell, Jr., vice president and treasurer. IHC has a large contract for armored utility trucks and another to produce five-ton military trucks. In order to finance these contracts, the company can draw down funds from the new loan as circumstances require.

General American Transportation Corporation also has arranged some substantial financing in the form of $20 million 3¾% notes taken by three institutional investors. The main purpose of this loan was to provide funds for redemption of 136,500 shares of $4.25 preferred stock, leaving more than $6 million to swell working capital. Part of the funds may be used to acquire the 10% interest formerly held by Evans Products in General American-Evans Company, leaving the buyer in full 100% ownership of this subsidiary that manufactures a new type of box cars.

he Personal Service Department of THE MAGAZINE OF WALL STREET ill answer by mail or telegram, a reasonable number of inquiries on y listed securities in which you may be interested or on the standing d reliability of your broker. This service in conjunction with your bscription should represent thousands of dollars in value to you. It subject only to the following conditions:

. Give all necessary facts, but be brief.

. Confine your requests to *three listed securities* at reasonable intervals.

. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*

. No inquiry will be answered which is mailed in our postpaid reply envelope.

. Special rates upon request for those requiring additional service.

Wants to Emerge from the Dog House

"I have started receiving your maga- e and like it very much. I had the sfortune a few years ago of purchas- g some stocks too high, and my wife s put her feet on me to the extent that buy no more stocks until I come out en or a little ahead.

"My holdings are Carrier Corporation mmon purchased in 1937 at 56¼ and ditional shares purchased in 1939 at ½. I also bought some Carrier Cor- ation preferred in 1946 at 50.

"I would appreciate greatly if you ld give me your opinion as to ether they will reach a high this year ere I can come out without a loss, or out what date they should reach their gh point. I will greatly appreciate any ormation you can furnish me toward tting out of the 'Dog House'."

W. G., Columbus, Ohio

We would like to get you out of e "Dog House" as soon as pos- ble but as we do not possess a ystal ball, we nor anyone else n accurately predict the highest ice any stock or stocks will ach. However, our views on rrier Corporation are as fol- ws:

Earnings of Carrier Corpora- n for the twelve months ended nuary 31, 1951 rose sharply to .74 per common share, com- red with $1.67 in the preceding ar. Preferred earnings for 1950 re $29.53 per share, compared th $16.49 in 1949 fiscal year. hile these stocks are specula- e, the company's strong posi- n in the air-conditioning field ers good growth possibilities r the long-term. Thus the pre- red stock is attractive for its isfactory income yield and conversion feature and also the common stock as it is selling at a conservative price-earnings ratio and yields a fair income return. The good earnings trend and long-term growth prospects should eventually be reflected in the market price of both stocks and therefore we recommend further retention.

Allis Chalmers Manufacturing Company

"I have been wondering how Allis Chalmers Manufacturing Company is faring in our defense program. Please report amount of unfilled orders on company's books on the latest date available and also recent earnings, dividends, etc."

E. G., Racine, Wisconsin

Allis Chalmers Manufacturing Company earned a profit of $23,119,853 for the year ended December 31, 1950, as compared with a profit of $18,755,461 for the previous year.

The profit is equal to $8.72 a common share after preferred dividends of $1,167,996, as compared with a profit of $6.99 in 1949. Total sales billed in 1950 amounted to $343,698,400 as compared with $351,097,878 in 1949.

The tractor division exceeded its previous peacetime sales, reaching a total of $209,497,792. The general machinery division accounted for $134,200,608.

The company is entering a period of increased defense production. However, the company's regular line of products are all vital to both the defense program and the essential civilian economy —power production and processing machinery, general industrial apparatus, farm equipment and construction machinery.

The unfilled orders in the general machinery division increased from $97,342,031 on January 1, to $126,158,450 on December 31, 1950.

At the close of the year the company had $130 million in defense orders. Of this amount, $110 million had not been booked since it is the practice of the tractor division not to book its orders until the products have been billed.

This amount includes the tractor division contract to manufacture cargo carriers at the La Porte Works. Since the beginning of the year, this contract has been increased to $180 million.

The division of the 1950 sales billed and other income amounting to $345,399,277 is: Material and operating expenses, $191,362,965 or 55.4%; wages and salaries, $100,593,706 or 29.1%; all taxes $30,322,753 or 8.8%; retained for working capital $13,774,486 or 4%; and dividends, $9,345,367 or 2.7%.

Dividends including extras totaled $3.25 a share in 1950 and 75c is the current quarterly rate.

Union Bag & Paper Corporation

"How does Union Bag & Paper's sales and earnings in 1950 compare with the previous year? Did the outbreak of the Korean war affect the company's operations materially?"

E. D., Trenton, N. J.

Sales volume of Union Bag & Paper Corporation in 1950 reached a new high of $80,374,420 and this showed an increase of $14,885,890 or approximately 23% over 1949 sales of $65,488,530 and were $3,844,667 greater than the previous peak volume of $76,529,753 attained in 1948.

Net income of the corporation for 1950 operations amounted to $10,897,604 after provision of $9,988,338 for all taxes, compared with net income in 1949 of $7,486,638, after $5,539,436 for taxes. The 1950 earnings are equivalent to $7.23 per share on the 1,508,298 shares of outstanding common

stock as compared with $5.01 per share on 1,493,698 shares in 1949.

The high level of the year's operations, reflected the heavy demand made upon the kraft paper and paperboard industry since the outbreak of the Korean war and this country's stepped up program for military preparation.

Despite increased efficiency and high level of capital expenditures over recent years, the company was still unable to satisfy all the requirements of its customers and at the year-end, still faced heavy backlogs of unfilled orders.

Capital expenditures in 1950 amounted to approximately $5 million, a major portion of which was devoted to increasing the capacity of the company's Savannah plant, at which all-time production records were established during 1950 resulting principally from recent capital improvements.

Working capital of the corporation at the close of 1950 increased to $18,269,216 from $14,065,908 the year earlier. Ratio of current assets to current liabilities on December 31 last was better than 5 to 1. The company's outstanding bank indebtedness was reduced by $500,000 during 1950, leaving a balance of $1,850,000

Dividends in 1950, which included an extra, totaled $3.00 per share and 50c quarterly has been paid thus far in the current year.

Pittsburgh Consolidation Coal Company

"I have been a subscriber to your valued publication for a good many years but only on rare occasions take advantage of your personal consultation service. I would appreciate receiving information as to the earnings record of Pittsburgh Consolidation Coal Company in the past five years, book value per share and coal reserve position."

A. W., Los Angeles, Cal.

Pittsburgh Consolidation Coal Company reported consolidated net income for 1950 of $16,145,133 or $7.49 per share, exclusive of profit on disposal of properties amounting to $1,167,885. This compares with $14,553,072 or $6.72 per share earned in 1949, exclusive of loss of $872,485 on properties disposal.

In reviewing the company's first five years in business, 1946-1950, during this period earnings amounted to $71,542,000 or $33.19 per share for an average annual return of $6.64 on each of the 2,155,299 shares presently outstanding. Charges for depreciation and depletion totaled $30,953,000 or $14.36 per share, while disposal of properties, investments and related items accounted for $35,360,000 or $16.41 per share. Thus, from earnings, depreciation-depletion, and sales of properties and investments, the company obtained a total of $137,855,000.

The company's book net worth has increased from $72,162,000 at December 31, 1945, to $139,484,000 at the end of 1950, an increase of 93%. The per-share equity has grown from $40.24 to $64.72.

Among the operating improvements gained from the capital expenditures has been an 80% increase in the daily capacity for mechanically cleaned coal, which will soon be further expanded to a total of 136,200 tons. Tons per man-day increased from 7.5 for 1946 to 10.3 for 1950, and this 37% gain productivity has permitted the company to minimize the effects of the great increase in wage rates.

The company's research program is proceeding along the avenues of coal gasification, carbonization, and on projects related to current operations such as the recently announced coal pipe line development.

The company's coal reserves have been increased from 30% and now amount to 1.81 billion tons. Of more importance, there has been a realignment of reserves into a more strategic pattern, with new tracts acquired in areas well adopted to economical operations.

Capital expenditures during 1950 amounted to $9,872,000 and authorization during 1951 will amount to $13,500,000, both of which will be spent in 1951.

Robertshaw-Fulton Controls Company

"What is the outlook for Robertshaw-Fulton Controls Company in the current year? How does sales and earnings compare in 1950 with the preceding year?"

A. G., Dallas, Texas

Both sales and earnings of Robertshaw-Fulton Controls Company again established new peacetime records during 1950. Operations showed that sales rose more than 70% and that net income increased by approximately 111%

Net sales during 1950 were $47,183,000 as compared with $27,905,109 in the preceding year, an increase of $19,277,891, or 70%. After deducting all charges, including the higher Federal income taxes and excess profit tax, net income was $5,785,000, equal to $4.32 a share on the 1,333,3 shares of common stock outstan ing after providing for dividen on the remaining preferred shar —all of which were retired in Ju 1950. This compares with net i come of $2,733,150 or $2.25 share on the 1,181,382 shares common stock outstanding duri 1949.

Inventories at the year-e amounted to $7,869,000, an i crease of $2,726,000 over inve tories on hand at the end of 194 The increase in inventory w normal in view of the substanti increased operations.

For the three months end March 31, 1951, sales were $1 million, net profit $1,513,00 equal to $1.13 per common shar This compares with first quart 1950 sales of $9,783,894, n profit of $1,536,544, equal to $1.2 per share.

Dividends in 1950 totaled $2.1 per share and 37½c was paid i the first quarter of the curre year.

Prospects over coming month appear favorable.

Central Hudson Gas & Electric Corporation

"Please furnish information as to r cent earnings and dividends of Centr Hudson Gas & Electric Corporation."

G. R., Toledo, Oh

Central Hudson Gas & Electr Corporation had a 13% rise in n income and operating revenu during 1950. Total operati revenues for the twelve mont ended December 31, 1950 we $16,578,567, compared to $14 644,358 for the twelve mont ended December 31, 1949. Net i come for 1950 totaled $1,682,0 compared to $1,487,015 for t similar 1949 period.

After preferred stock dividen and reservation from income r quired by the Public Service Co mission, the earnings were equ valent to 71c per share on 1,613 349 shares of common stock ou standing at year-end as again 65c per share on 1,500,105 shar outstanding at the end of 194 This is a rise of 9% in earnin per share over 1949.

Net income for the thr months to March 31, 1951 w $485,767, equal to 24c per co mon share and this compares wi first quarter 1950 net income $451,185, equal to 23c per co mon share.

Dividends in 1950 totaled 5 per share and 15c quarterly h been paid thus far in the curre year. (*Please turn to page 22*

Convertibles Attractive Now?

(*Continued from page* 203)

were no conversion arrangement. With the common around 13, the conversion ratio of 6⅔ shares for one preferred scarcely could have any impact as a price factor.

Dixie Cup has outstanding a $2.50 Class A stock which enjoys preferential treatment and is convertible into common share for share. Since the Class A stock is redeemable at $45 a share and management has indicated its desire to simplify the capital structure by compelling conversion, it seems logical to think that this issue soon may be eliminated. The return at recent prices of more than 3½ per cent is not out of line with current market conditions.

Holly Sugar 5% preferred is an example of a somewhat more speculative senior stock that may have above-average attraction as an inflation hedge – since sugar shares likely would benefit from any sustained advance in commodity prices. The issue is convertible into 1.1213 common shares until August 1, 1958, and around recent prices was about in line with the conversion ratio. The return of almost 5½ per cent has appeal for investors in a position to assume a business man's risk.

Kelsey-Hayes Wheel Co.

Kelsey-Hayes Wheel Company, leading manufacturer of wheels for General Motors and Ford passenger cars, has an issue of $1.50 cumulative convertible Class A stock. The stock is convertible into Class B on a share for share basis and is redeemable at $35 a share. This stock also enjoys the privilege of dividend participation with the common, since it is entitled to $1.50 a share annually and participates equally after the Class B stock also receives $1.50. Both issues received $3 a share in dividends last year and, considering the promising outlook for earnings, both issues may receive extra dividends this year. Hence the return on Class A at current levels would be generous if distributions this year should approach the 1950 total. The shares still are safely below the call price.

Liquid Carbonic $3.50 preferred is another semi-speculative senior stock affording a fairly liberal return of about 4½ per cent which currently is giving little market value to the conversion privilege. The stock is convertible into common at $39.49 a share until February 1, 1956. With junior shares far below this price, the conversion privilege is not operative, but for the investor anticipating in the future any sharply higher price level, this issue may have attraction.

Murray Corporation provides another representative of the automotive industry offering a convertible stock about in line with the market. The preferred, which may be exchanged for two shares of common until October 1, 1955, at recent prices afforded a return of almost 4¼ per cent. Indicated results for the fiscal year ending August 31 appear sufficiently promising to warrant a favorable attitude toward this issue.

A convertible preferred having interesting speculative possibilities is the senior stock of Armour and Company, prospects for which are discussed in detail in another article in this issue. The prior preferred, entitled to $6 cumulative dividends, has an accumulation of $7.50 a share in unpaid dividends. The stock is convertible into common at the rate of six shares for each prior preferred, so that this privilege has little or no effect on current prices of the senior stock. The relatively large number of shares specified in the conversion rate gives the prior preferred considerable leverage, for each point of advance in the common would mean six points for the senior shares after the stocks reach conversion parity.

What's Ahead for the Motion Picture Industry?

(*Continued from page* 201)

All said, the outlook of the motion picture industry is not quite so depressing as the continued decline in its earnings power might suggest. True, the factor of increasing competition from television must be recognized, but it is hard to visualize that the thoroughly ingrained habit of attending the movies will permanently deteriorate. In the circumstances, the current highly deflated movie shares may have liberally discounted many of the uncertainties ahead, and the possibility of somewhat lower dividends here and there. Practically all of the motion picture shares are selling far below their book values, and even some of the best grade are obtainable close to their net current asset values. An average current yield of 8.7% on seven dividend payers listed on the appended table shows there is room for a lower return if earnings do recede moderately. The main question of the industry's long term future must remain a matter of individual opinion, but its operations would not have to improve much to stir up considerable speculative fervor.

Warner Brothers

That optimism over the outlook for motion pictures prevails in at least one direction is indicated by a report from a member of the Warner family that about $25 million has been offered for their holdings of 24% of Warner Brothers Pictures common shares, or close to the current market price of 13½. Stockholders of this concern have approved a plan to exchange one share of the present common for one-half share each in a production and theater company, but the exchange has not yet become effective. The Warner theater chain consisted of about 436 theaters in the United States and about 25 feature films have been produced annually. In the fiscal year ended August 31, 1950, $1.47 a share was earned compared with $1.43 in 1949, although total revenues of $132.5 million were lower for the fourth consecutive year. In the 1946-49 period, dividends were reduced from $1.87½ per share to $1 in 1949, at which level they have remained steady to date.

Paramount Pictures Corporation in its first year of operations following segregation from Paramount Pictures, Inc., earned $2.67 per share compared with $1 (pro forma) in 1949. The showing did not include $1.26 million undistributed earnings derived from partially owned non-consolidated subsidiaries, including a 26% interest in Allen B. DuMont Laboratories, Inc., an outstanding television firm. Paramount is benefiting from the unfreezing of blocked funds in some foreign countries, although devalued currencies are a handicap. The company owns a 67% interest in Famous Players Canadian Corporation, Ltd.,

hose 390 Canadian theaters are perating profitably. Paramount ictures has used quite a portion f unusually large cash resources purchase in the open market hares of its common stock at rices well below their book value. 1950 alone 808,076 shares were acquired, and to date in 1951 additional 151,467 shares have een purchased. By this process he number of shares outstanding ave been reduced to about 2.3 illion from 3.38 million at the art of 1950, in no small manner nding to stabilize per share earn- gs and dividends. 50 cents quar- rly dividends will likely con- nue throughout 1951.

Loew's Inc., the still fully inte- rated film producer and exhib- or, experienced a decline in gross perating revenues in the fiscal ear ended August 31, 1951, but ood cost controls and a non-re- urring profit lifted net earnings $1.53 versus $1.50 the year be- ore. While domestic revenues this ear will probably decline, some- hat larger income from foreign lm rentals may be at least a par- ial offset. The company has a good ank of possible "hits" for 1951. With a favorable shelter against xcess profits taxes, net earnings his year may not vary much from 1950. While strong finances may tabilize quarterly dividends of 37½ cents a share, the spread of arnings is very narrow and cre- tes uncertainty in this respect.

20th Century-Fox Film

20th Century-Fox Film's earn- ings last year were adversely af- fected by a 10% decline in theater attendance, but a substantial por- tion of the shrinkage was ac- counted for by enforced divest- ment of a number of theaters. For- eign film rentals in 1950 totalled $31.3 million and would have reached an all-time high of $38 million had it not been for cur- rency devaluations. 1950 net earn- ings of $3.72 per share compared with $5.39 in 1949. Despite the im- proved outlook for foreign busi- ness, profits this year will prob- ably be less. Dividends, however, may continue at a quarterly rate of 50 cents a share. Looking ahead, operations may benefit from a re- cent exclusive contract with a Swiss firm for a large screen tele- vision projector and lamp. Release of new films this year will include many prospective hits and a larger number is planned for 1952.

Changed Outlook for Television

(*Continued from page* 196)

phonograph and hearing aid production, the company is pinning great hopes on Phonevision, or subscription television. This is a method for transmitting a code signal by telephone, enabling television set owners to see new Hollywood pictures, major sports events or other premium entertainment. "Admission" would be collected by the telephone company.

The idea is to establish a "box-office" for television, on the theory that advertisers cannot pay the high production cost of a new full-length Hollywood production. The tests conducted in the Chicago area are encouraging but not conclusive.

Additional company results, to the extent that they are available at this writing, will be found in the appended tabulation. Market action of TV shares since Korea has been characterized by sudden, sharp price fluctuations with little relation to overall market performance, depending on fluctuating sentiment in regard to near term industry prospects. Indubitably the near term outlook is clouded for reasons previously stated. But this hardly detracts from the long term growth potential, though its realization is subject to delay of unpredictable duration depending on the length and scope of the rearmament effort.

For the time being, the earnings trend is downward due to declining TV set production tax impacts and narrow-margin Government work, and this will likely make for more or less subdued market action of TV shares. On any sizeable future market setback, the shares of well situated companies should however be attractive for inclusion in long term holdings.

For Profit and Income

(*Continued from page* 205)

ther advance must have been substantially reduced by the major rise already seen. There is much to be said for sitting tight on good oils bought at lower levels; and for having considerably more of total portfolio stock funds in them than in any other group. There is less to be said for overly enthusiastic new buying at present levels.

Dixie

The lightly capitalized Dixie Cup has been "going to town," with the stock spurting to a recent new high of 67¼, after selling as low as 44¼ earlier this year. Following a high of 52 in 1946, the 1947-1950 range was 24¼-47¾. The company, one of the largest makers of paper cups and containers, has had a strong growth since pre-World War II. Sales set a record at $29.3 million last year, with net of $12.18 a share on the 202,666 shares of common. With conversion of the Class A stock into common at 45, share-for-share, the stock capitalization will henceforth be 381,310 shares. Even on this basis, and with taxes deducted at the high rate of 65.4%, first quarter net approximated $1.88 a share, or an annual rate of $7.52. First quarter sales were over 20% above the average 1950 level. In view of its sharp run-up, temporary possibilities in the stock could well be limited. On long-term growth potentials, it is not yet "out of sight." Neither are other paper growth-stocks, such as Sutherland Paper, Lilly-Tulip Cup, Marathon and Kimberly-Clark.

Rails

Rail stocks have perked up enough to suggest, as this is written, that the average may test its February high. A rise above it would provide a "Dow-Theory confirmation" of recent new highs in the industrial average. That is traditionally supposed to make many people more inclined to hold or buy stocks; and to argue against selling. Rail "confirmations," or the absence thereof, leave this column cold. There have been instances of protracted advances in industrial, with little or no help from rails. Thus, in the 1932-37 rise, rails made a 1933 high which was not bettered until the autumn of 1936, or for some three years, meanwhile the uptrend in the industrial list having continued. And there have been instances when a rail "confirmation" of a general bull trend has been followed in no great time by a steep reaction or a bear market. When rail performance looks particularly good, it is generally sounder policy to sell at least

speculative rails than to buy them. Whether foreseeable or not, something will generally happen to change an apparently favorable rail picture for the worse. If rails get back to the general vicinity of the February high, and even more if they get somewhat above it, this column would much prefer selling to buying.

Dynamite

Crucible Steel is a high-leverage situation, with only 498,454 common shares outstanding. Witness the following variations in earnings: 1929, $11.66 a share; 1932, a deficit of $11.92 a share; 1941, net of $12.96 a share; 1946, a deficit of $2.37 a share; 1948, net $4.15 a share; 1949, deficit 41 cents a share; 1950, net of $9.74 a share. After 1929, dividends were paid only in the five war years 1941-45. However, Crucible has invested about $46 million in recent years—equal to over a third of total stated assets—in plant improvements; and has scheduled a further $50 million or so for expansion. It could readily earn $15 or $16 dollars a share this year, despite higher taxes; and more may be possible, for first-quarter net was at an annual rate of more than $17 a share with taxes accrued at 64.5%. Crucible sold at 81¾ at the 1937 bull-market high on earnings of $5.26 a share, and at 54⅜ at the 1946 bull-market high, with a deficit that year and only $7.26 a share earned in 1945. The stock is now around 43. The current high level of earnings and the basic improvement in operating status of the company might facilitate a materially higher market price, if there should be any considerable revival of general speculative tendencies.

Special Study of Armour and Company

(*Continued from page* 199)

enlarged retail demand. Thus the impact of increased consumption accounted for price increases at the farm. Moreover, grain prices rose, so that costs of feeding animals advanced correspondingly, and this factor also found reflection in meat prices.

Rising prices contribute to inventory gains for packers while raw material is in process. This factor accounted in no small measure for a sharp recovery in earnings of Armour and other packers in the latter part of the 1950 fiscal year ending October 31. Armour's sales rose only about one half of 1 per cent, despite an increase in domestic meat production under government inspection of 2.4 per cent, and earnings rose to more than $19 million from about $558,000 in 1949. This was equivalent after regular preferred dividends to $3.94 a share on the common, compared with a loss of 60 cents a share for 1949.

Unfavorable results in 1949 led to suspension of dividends on the $6 prior preferred stock, but last December, after the close of the fiscal year, a payment of $3 a share reduced arrears to $7.50 a share.

Armour uses "Lifo" accounting methods for inventory purposes on pork products and lard as well as for leather and hides and also soap, but other products are valued on a first-in-first-out basis. Although use of "Lifo" minimizes the effects of price variations to a considerable degree, it does not entirely counteract sizable profits and losses, depending on the trend of price changes.

The company apparently had quite a satisfactory inventory position at the beginning of the current fiscal period. Military requirements for meat and by-products remain high, while industrial activity virtually assures a strong demand for meat and meat consumption, according to authorities, is expected to increase.

With all the management's progress in concentrating on high-margin products and in the development of new lines, the business remains one of the most volatile of all major enterprises. Labor costs have risen sharply, but still are relatively low in relation to sales. Nevertheless, disruption of normal operations can have seriously adverse effects, as Armour learned in the 1948 strike. Comparatively small fluctuations in profit margins frequently have surprisingly significant effects on operating results.

Dividend Outlook

Thus dividend payments have been erratic. With the benefit of large wartime earnings, the company was able to catch up on preferred arrears in 1947 and payments were continued through 1948, but losses sustained that year and disappointing improve-

ment in 1949 compelled another suspension. The management apparently is hopeful of eliminating accumulations of $7.50 a share this year. Prospects for common dividends, however, are uncertain at best. After a payment of 90 cents a share prior to the 1948 strike, when management had high hopes of having restored earning power, distributions on the common were omitted.

The financial position has been strengthened, but debt still is comparatively large considering total capitalization. Long term debt at the close of the fiscal year consisted of $10 million 2 per cent promissory notes, $50 million first mortgage 2¾ per cent bonds, due 1971, and $38.8 million 3½ per cent debentures due in 1968. In addition there was an issue of $29.5 million subordinated income debentures due in 1972. Funded debt as of January 27, 1951, end of the first quarter of fiscal 1951, totalled $136 million. The preferred stock, convertible into six shares of common, was outstanding to the amount of 500,000 shares, while common consists of 4,065.715 shares of $5 par value stock.

Price Rollbacks Ahead?

(*Continued from page* 187)

short supply, is feeling progressively the effect of the swing to other fibers. Lumber prices are sagging. The strictly durable or military materials are in a strong position but one can't say much for most other commodities.

Cattle growers, currently withholding their larger marketing stocks from the market in hopes of the end of OPS controls and higher prices, are more than likely to break prices on themselves when the very heavy fall movement of livestock to market gets under way late this Summer. This would affect beef, other meats, and feed grains and concentrates.

With raw materials prices declining over a broad area, buyers of finished goods certainly would not be willing to pay ceiling prices to manufacturers based on higher materials costs. Not when manufacturers are looking for outlets for their goods, rather than the other way around.

The price easiness that seems reasonably certain to develop over a substantial part of our economy during the next few months may prove to be temporary. That would make it none the less real. Something, such as a fresh war scare or the real thing, may come along to prevent it. But the rather distinct prospect apart from this possibility is something that can't be brushed aside lightly with one's eyes on distant shortages that may prove to be only mirages when we arrive there.

In announcing the manufacturers' price ceilings regulations, the price controllers have expressed the belief that a good many price rollbacks might ensue, and businessmen have expressed fear that they might be forced to absorb certain cost increases to the detriment of their profit margins. The latter fear now appears somewhat exaggerated in view of latest developments. As to rollbacks, chances are that a good many may be strictly *voluntary* rather than mandatory under the new pricing formula.

Answers to Inquiries

(*Continued from page* 214)

In the face of current allocations of critical materials and the probable extension of Federal controls, it is fortunate that a large proportion of the materials and equipment for the company's new Danskammer Point 60,000 k.w. steam generating station and the 25,000 new Neversink Hydro-Electric plant already has been delivered or is in process of fabrication by manufacturers. Thus, these large projects are expected to be completed on schedule.

What Tightening Money Portends for Business

(*Continued from page* 182)

Whether the present moment, with signs of a mild business downturn multiplying, would be a fortunate one for such action is another question. Doubtless Congress will think twice before it acts.

Even without such action, voluntary restraint in lending, if continued, should have a good measure of success as indeed it already has. Thus for the time being, there appears little need for additional controls. With a free Government bond market, the Federal Reserve is no longer required to add to bank reserves by open market purchases of bonds. Bank reserves appear to be shrinking with excess reserves – the amount available for loan expansion – down fairly substantially. And doubtless there is a general desire among lenders to cooperate with the Government in order to avoid tighter direct controls.

The Trend of Events

(*Continued from page* 176)

objectionable features. As a matter of practical foreign policy as well as economic wisdom, Congress ought to renew the existing Reciprocal Trade Law without flirting with old-time protectionism which is contrary to American interests at home and abroad.

As I See It!

(*Continued from page* 177)

China and the Kremlin have now been clearly put on notice that they cannot lure us into a military trap, and that they can involve us on the Asian mainland only by starting the third world war. We doubt whether this fits in with their time table.

All in all, we would not be surprised if MacArthur by bringing the matter of Korean and Asian strategy to a head, will have done a signal service to his country, if the reactions both at home and abroad, including in the communist camp, will have the effect of furthering the cause of peace rather than increasing the danger of war.

He has emphasized the importance of the anti-communist struggle to the point where even the British and other U.N. members have felt compelled to modify their shipments of strategic materials to Communist China and otherwise show somewhat more enthusiastic support of our effort in Korea. But most important, he has forced the Administration to warn the Kremlin more explicitly than ever before where the line lies between cold war and all-out war.

Clearly, in the light of what happened, he has proved past policies to be inadequate with the result that a new Far Eastern policy is now being worked out under pressure of public opinion. This represents a notable swing. The credit for it must go to General MacArthur.

Trends in First Quarter Reports

(*Continued from page* 193)

share of foreign earnings was more than $7 million, but only $1.8 million was received as dividends.

High level operations of Allegheny Ludlum Steel during the first quarter of 1951 resulted in the largest sales volume in company history. Volume totalled $57.9 million and net earnings of $2.03 per share were substantially larger than $1.40 reported a year earlier, although slightly less than $2.14 per share earned in the 1950 third quarter. The management has pointed out that larger sales volume was made possible by increased plant capacity attained by the postwar expansion program, and that new equipment served to speed production almost monthly. Shipments in March reached the all-time high of $21.3 million or an annual rate of more than $250 million. Deduction from earnings for taxes included about $1.3 million for excess profits taxes in the first quarter, equal to about 80 cents per share.

The marked uptrend in volume of Borg-Warner Corporation characteristic of the last half of 1950, continued all through the first quarter of 1951, and established record sales in the latter period. Volume of $100.6 million was about 44% higher than the year before. However, under greatly increased taxes, the company's net earnings for the first three months were lower than in the comparable quarter of 1950 and considerably below net income in the second and third quarters of last year. Even so, the first quarter net of $2.41 per share compared favorably with $2.20 reported in the December quarter.

The management of Borg-Warner cautions that the prolonged uptrend in sales for more than a year past is no valid indication that it will continue throughout 1951. A downturn might result from further Government restrictions on critical materials, a reduction in consumer buying power due to increased taxation and a vacuum period when conversion to military output becomes essential. Any or all of these factors may appear during the last half of 1951. The company has received military orders in increasing amount, but the impact of war production will not markedly affect volume until early 1952. To date in the current year, demand for the company's civilian products has exceeded productive capacity, and only very high level operations have met the demand for automotive, agricultural and aviation products. Materials restrictions, though, will soon reduce output of the company's two types of automatic transmissions.

Profits of White Motor Company for the first three months of this year showed a substantial increase over the corresponding period of a year ago. After providing for income and excess profits taxes at the maximum rate of 62%, $1.99 per share was earned versus 53 cents a year earlier. Sales of parts and accessories plus finished trucks and buses rose to $36.4 million from $19.5 million in the same quarter a year ago, substantially due to deliveries of 5,063 trucks and buses compared with only 2,843 the year previous.

As of March 31, 1951, White Motor had on hand unfilled orders equal to four and a half months of production. To date, the deliveries on military orders have not been a major factor in the company's operations; production, though, is about to commence on several large defense orders which will materially increase this phase of production. On the whole, accordingly, the outlook for this concern is quite encouraging.

Union Bag & Paper Company attained the largest sales and net earnings in the March quarter of any previous three months period on record. Net sales of $26.6 million were almost 50% above the first quarter of 1950, and net earnings of $2.45 per share compared with $1.47, the latter adjusted to allow for retroactive income taxes at the increased rate effective last year. The demand for multiwall and ordinary paper bags continues so insistent that quite an acute shortage has developed, with signs that this will continue for months to come.

Although Pullman Incorporated had to provide about four times as much for Federal taxes on income in this year's first quarter as the year before, a 30% increase in gross revenues fully offset the handicap and permitted net earnings to rise to 83 cents a share from 43 cents. A heavy volume of new business was booked by the company's subsidiaries during the first quarter of 1951. The combined backlogs of Pullman-Standard Car Manufacturing Company and the M. W. Kellogg Company totalled about $350 million recently. The company's consolidated working capital on March 31, 1951 amounted to a lush figure of $110.6 million or $50.46 per share.

New Trends In Selectivity

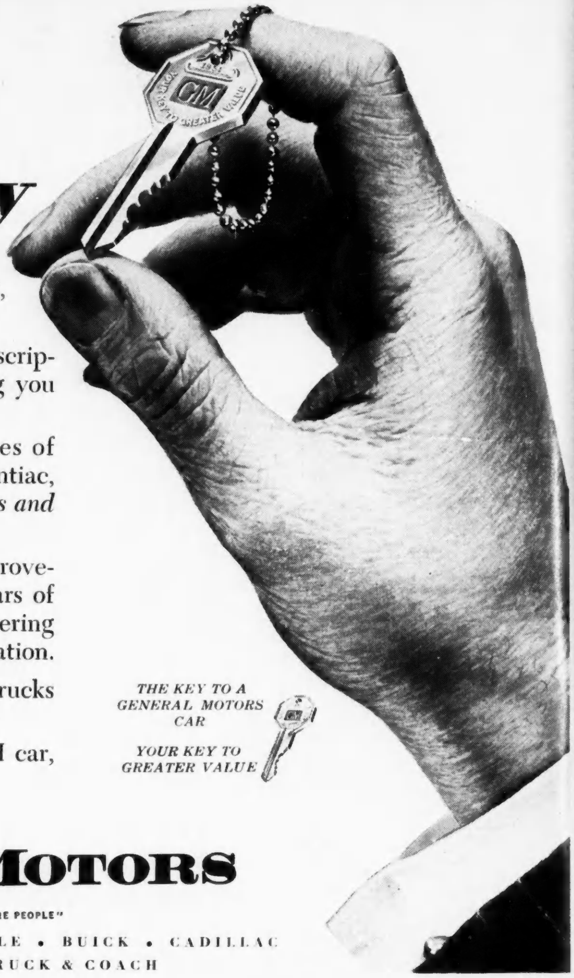
(*Continued from page* 179)

total profits this year may be down no more than 15% or so; but even more conceivable that the shrinkage will be much more than that on an annual basis in the second half—and in 1952-1953, if the defense program dominates the economy for the long period now officially projected. The first marked effect on dividends probably will be seen in the year-end extras; and figures to be more pronounced in 1952-1953. This is unless we turn back from an armament economy—and if we do, the result will be deflationary. What can happen to some of the industries drafted for defense work is foreshadowed by the relatively poor first-quarter earnings reports of General Motors and Chrysler, under operating conditions considerably more favorable to profits than can be expected in the second half.

Allowing for the full impact of what is ahead, it may be that industrial stocks are closer to a 5% average yield basis than 6.5%. If that also is not extreme, neither is it particularly high; for major uncertainty usually precludes yields as low as those seen at past bull-market highs, and nothing could be a more fundamental uncertainty than the matter of peace-or-war in the months or years ahead. Note the sensitivity of the market to even inconclusive shifts in the fortunes of war in Korea.

We repeat that we do not presently see the basis for a bear market. We can see a basis, especially on the psychological side, for a return to fairly broad, not unduly protracted, up and down swings in the market more or less similar to those seen between the late autumn of 1946 and mid-1949; with the chances that the next such swing will be downward. We continue to advise a conservative, selective investment policy.—Monday, May 14.

A key you can be proud to carry



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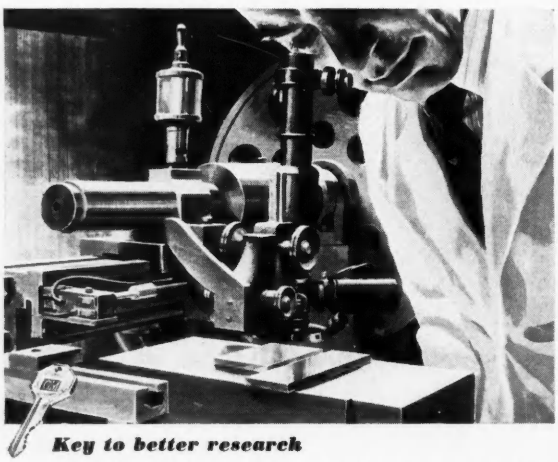
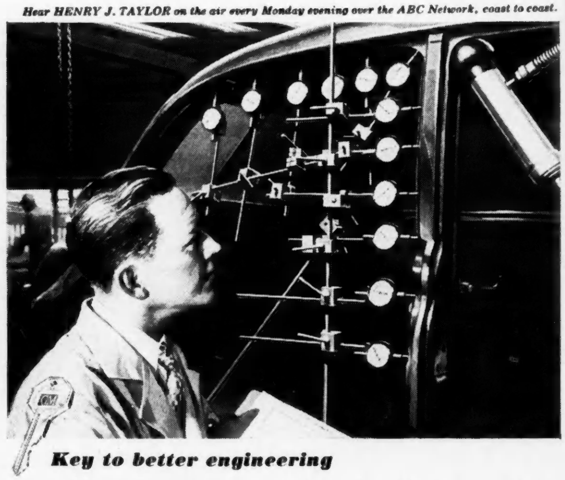


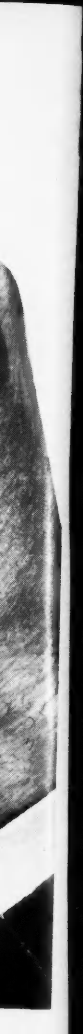
Key to better research

HIGHER STANDARDS OF PERFORMANCE are a product of painstaking research—well illustrated by this "gold standard" method of checking the smoothness of metal surfaces in moving parts. Some must be machined finer than others, and GM Research employs 27 degrees of smoothness—or roughness as engineers call it—as standard manufacturing practice. These are measured by gold-plated master blocks, diamond-ruled to millionths of an inch. These golden master gauges give you a smoother-running car—a better value for your money.



Key to better engineering

SUPERIORITY IN DESIGN comes from infinite tests to check the staunchness of new body styles. Here, an engineer carefully measures strength around the door opening. The jack applies extreme pressure—and any minute deflections are instantly recorded by the closely spaced gauges. Test after test like this insures the rugged sturdiness and greater value of Body by Fisher—exclusively on GM cars. Such tests also insure greater durability in military vehicles built by GM to safeguard America.



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